The maximisation of savings in Irish and British credit unions: Success, opportunity or risk?

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CFCFE
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CFCFE is a not-for-profit research organisation incorporated in 2016 in Dublin, Ireland. Its mission is to undertake high quality research, to lead on ideas and innovations, and to explore tested solutions related to credit unions, co-operative banks and similar not-for-profit providers of community-based financial services in Europe.

CFCFE is rooted in values of co-operation, participation, social and financial inclusion, transparency, integrity, and excellence. Much of its work is done in collaboration with Liverpool John Moores University.

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Table of Contents

Foreword - a tribute to Ralph Swoboda RIP

It was on the eve of the publication of this study that the news broke of the sudden and untimely death of Ralph Swoboda, on 13th September 2021 in Dublin. Ralph was a founder director and chair of CFCFE and friend, mentor and colleague of hundreds of credit union activists worldwide.

Ralph believed with a passion in the value and benefits that credit unions can bring to individuals, families and communities everywhere. From his youth, his life was immersed in credit unions, whether as president/CEO of Credit Union National Association in the US, as head of international operations for CUNA Mutual Group, as chair of the management committee of the Association of British Credit Unions Ltd or as founder of Credit Union Financial Analytics (CUFA Ltd) with Declan Mooney and Pintu Jacob. He was also a founding member of the Filene Research Institute in the US and led major credit union development projects in China, Australia and Poland.

To credit union people in Ireland and Britain, Ralph was a particular inspiration and a catalyst for change and transformation in the credit union sector. For the past eight years, Ralph had made his home in Ireland. He loved the country and found himself to be an Irishman at heart with all his Irish friends and colleagues. But by the time Ralph arrived in the country, the esteemed and well-loved Irish credit union movement was struggling to remain relevant to contemporary Irish society and lend sufficiently to assure its economic viability. Ralph spotted the problems and, with colleagues at CFCFE, launched in 2017 the report 'The Irish Credit Union Business Model: Is It Still Fit for Purpose?'. In this report, Ralph and his colleagues articulated the challenges facing Irish credit unions today, many of which have been taken up by credit unions throughout Ireland.

Many years before, in 1996, Ralph arrived in Britain from the US on an expedition to find out why, unlike the Irish credit union movement, the British movement was going nowhere. At the time, even after 10 years of development, credit unions were lucky to have just a few hundred members. It was Ralph who saw clearly the problem that the then current British credit union business model was certainly not fit for purpose and that British legislation was the most restrictive in the world. He drove and inspired the seminal research, 'Towards sustainable credit union development', written by Dr Paul A. Jones in 1999. He challenged the then leaders of many small British credit unions to professionalise their businesses and modernise methods of savings and loans to compete effectively with other financial services businesses on the high street. The rest, as they say, is history.

CFCFE, founded by Ralph, is also his legacy to Irish and British credit unions. The current directors, staff and members are committed, in his honour, to ensure that CFCFE works effectively for the credit union sector in Ireland and Britain. In memory of Ralph, CFCFE will be renamed the Swoboda Research Centre, from the beginning of 2022.

Ar dheis Dé go raibh a anam.

Executive Summary

The first object of credit unions noted in Irish and British legislation is the "*promotion of thrift among its members by the accumulation of their savings*". For it is through saving and the building of assets, rather than through borrowing, that members achieve long-term financial health and stability.

The problem

In recent years, for a number of credit unions, mostly in Ireland but increasingly in Britain, savings growth has become problematic. It has outstripped loan growth, with the result that insufficient income is generated to maintain the capital-to-asset ratio and to pay a competitive dividend (or interest) on savings. Added to that, in Ireland, negative interest rates on bank deposits have resulted in high balances of member savings incurring significant costs.

The study

This study examines the impact of savings growth on credit unions. It was based on a survey of 19 Irish and 20 British credit unions, in-depth interviews with 12 credit union CEOs and conversations with seven commentators and regulators. These were supported by reference to the literature. The study took place between January and April 2021 at the height of the coronavirus (COVID-19) pandemic.

Concerns about savings growth

Credit unions in Ireland and Britain have seen savings outpace loan growth in the years prior to COVID-19 and significantly more so during the pandemic. This is cause for concern on both sides of the Irish sea. From the survey and interviews, Irish CEOs were concerned, for the most part, about: -

- An inability to on-lend the funds generated through savings mobilisation.
- The negative impact on the capital-to-asset ratio.
- The cost of retaining member savings through bank imposition of negative interest rates (the cost of savings through the payment of a dividend featured less given that few credit unions were paying dividends of any significance).
- The increasing inability to identify investment accounts with positive interest rates.
- The cost of life savings insurance on savings.
- The potential tensions between the ethos of credit unions to encourage savings and the commercial actions necessary to address these issues.

Among British CEOs, there were similar concerns but, although significant, they were not seen as critical as they were in Ireland. But at the root of the concern, as all CEOs stressed, was not the maximisation of savings per se, but the inability to lend those savings effectively.

Impact on capital-to-asset ratios

In the year to 30 September 2020, 89% (n19) of all participating Irish credit unions in Ireland experienced a decrease in the capital-to-asset ratio due to the receipt of increased savings. Of these 17 credit unions, six (35%) reported that the ratio was uncomfortably close to the regulatory minimum.

50% (n20) of all British credit union respondents also reported a decrease in the capital-to-asset ratio but only one reported that the ratio was close to the regulatory minimum.

Impact on credit union returns on savings

In both Ireland and Britain, many credit unions find that increased savings balances make it difficult to pay even a modest dividend or interest on savings. Some CEOs reported that they had cut dividend rates, even when they could have afforded the cost, to reduce the attractiveness of saving with the credit union as an action to manage the risk of future dilution of returns or to address a deterioration in the capital-to-asset ratio. In Ireland, many credit unions reported paying near zero returns on savings.

Savings as a risk to credit union stability

All six Irish CEO interviewees were clear that the savings position featured as a significant risk on the risk register and had done so prior to the pandemic. All reported a modest but continuing decline in capital adequacy over the last two years. Among the six British CEOs interviewed, four noted the rise in savings as a significant risk on the risk register. Two of these CEOs came from two of the largest credit unions in the country and both stressed the high-level risk increased savings posed.

Return on credit union deposits and investments

In the survey and interviews, credit unions in Ireland and in Britain reported the minimal and declining returns they received on bank deposits and investments. 89% (n19) of Irish respondents reported receiving less than 1% on total deposits and investments, 21% (n19) less than 0.5%. None of the Irish respondents reported receiving no return at all, but only two (10%) reported receiving over 1%. Among British credit unions the situation was similar with 70% (n20) of respondents reporting receiving less than 1% on deposits and investments and one reported receiving no interest at all. Only two reported receiving interest of over 1%.

Negative interest rates

Among Irish CEOs the issue that caused the greatest comment and indeed anxiety was that of the negative interest rates being levied by banks on liquid deposits. For this additional cost, which could be very significant, undermined the viability of the business model of the credit union. Among the six British CEOs interviewed, there was much less concern about negative interest rates, which have yet to be introduced for credit unions in the British banking market.

Actions taken in response to savings growth

In Ireland, from survey returns, the three top key actions taken in response to savings growth are: -

- imposing a limit on the total savings per member (79% of respondents (n19))
- reducing the dividend on savings to disincentivise deposits (53% of respondents)
- asking members to withdraw their savings (37% of respondents).

In Britain, a smaller proportion of credit unions had taken any action at all, with over a third saying that they had taken no action. However, where credit unions had made interventions similar to Irish credit unions, the two most popular actions are: -

- reducing the dividend on savings to disincentivise deposits (30% of respondents (n20))

- imposing a limit on the total savings per member (30% of respondents).

Can credit unions continue to promote thrift?

Only 42% (n19) of Irish CEO survey respondents believed that it was right to limit the amount that people could save with the credit union. In interviews, most expressed how they felt it went against the very ethos of credit unions.

In comparison, 65% (n20) of their British counterparts believed that it was right to do so. For both Irish and British participants, savings restrictions could only be justified on the grounds of protecting the long-term viability and existence of the credit union. Without such action, many argued, further damage would be inflicted on the organisation.

Other responses to savings growth

Restrictions on saving in credit unions cannot be the long-term solution to savings growth. The study stresses the importance of greater diversification of non-interest income streams and new opportunities in managing deposits and investments.

Supporting members with options

CEOs, particularly in Ireland, discussed three possible courses of action that credit unions could take to support members to find long-term savings opportunities through intermediaries. These were referring to or employing professional financial advisors, signposting to information about investment products and services and the possibility of using digital investment platforms.

Could governments/regulators do more?

The suggestions from Irish participants mainly related to three areas of concern: the regulatory capital requirement, investment opportunities including off balance sheet deposits, and access to state savings schemes.

The greatest number of comments concerned regulatory capital and how the current requirements in Ireland are not fairly gauged to the risk profile of a credit union's asset base and undermine its ability to retain the savings of their members. CEOs felt strongly that the across-the-board 10% capital requirement is fundamentally unfair, given that it is applied without distinction to an unsecured loan to a member, to deposits in banks and to investments in government bonds.

There were a range of suggestions, explored in this study, made by interviewees as to how the regulatory capital requirements could be adjusted to support the viability and sustainability of credit unions.

The suggestions from British participants replicated a number of the Irish ideas. Suggestions mostly concerned the capital-to-asset ratio and the holding of funds in a reserve account at the Bank of England. Deposits in such a reserve account would be excluded from the regulatory capital calculation. This would be of significant value to credit unions having to manage large amounts of members' savings.

1. Introduction

The maximisation of the savings of members has always been a major objective of credit unions. Many would argue that it is the key objective and the overriding purpose of a credit union, for it is through saving and the building of assets, rather than through borrowing, that members achieve longer-term financial heath and stability. This was a poignantly argued by Sherraden in his influential book, 'Assets and the Poor' (1991), where he demonstrates how savings have social and psychological significances beyond their value as stored income and contribute to feelings of empowerment, control, and well-being.

Indeed, the first object of a credit union as listed in the Irish Credit Union Act, 1997, is the "*promotion of thrift among its members by the accumulation of their savings*"[1]. This is identical to the first object noted in the British Credit Unions Act 1979[2]. On an international level, WOCCU has identified the maximisation of savings as one of its seven key doctrines of credit union success (Richardson 2002). For not only does the accumulation of savings contribute to the social, psychological, and economic well-being of members, it exemplifies the level of their commitment to and trust in the institution itself.

However, in recent years, for an increasing number of credit unions, the maximisation of savings has become not so much a success to be celebrated but a concern to be monitored and a risk to be managed. For in these credit unions, the growth in savings has way outstripped loans made, with the result that insufficient income is being generated from lending to maintain the capital-to-asset ratio and to pay a competitive dividend (or interest) on savings. Savings maximisation, rather than stimulating a profitable expansion of the loan book, has instead become a significant cost to the credit union.

This is a particular problem in the Republic of Ireland where credit unions have suffered from a long-standing low loan-to-asset ratio (Swoboda et al. 2017) and are now having to also cope with the impact of negative interest rates on bank deposits. But it is also a reality that is surfacing in some credit unions in Britain. As yet British credit unions do not face negative interest rates[3], but high levels of savings equally impact on capital-to-asset ratios and the ability to pay a dividend (interest).

This paper aims to explore the incidence, dynamics, and impact of rising levels of savings on Irish and British credit union stability and operations. It reveals the increasing challenges faced by credit unions in managing savings growth, the actions they are taking in response and further actions that could be taken to ensure long-term credit union viability.

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[1] Credit Union Act Part II, Section 6.2.a
http://www.irishstatutebook.ie/eli/1997/act/15/section/6/enacted/en/html#sec6

[2] Credit Unions Act 1979, Section 1.2.3a https://www.legislation.gov.uk/ukpga/1979/1

[3] At the time of publication of this paper, market sentiment appeared to be moving away from an expectation of negative interest rates in Britain to a forecast of possible rate increases. E.g., Financial Times 31 October 2021 https://www.ft.com/content/88c0c863-f2ab-4e05-ae9b-d1d5f8e2c010

2. The CFCFE study

The study on which this paper is based took place between January and April 2021 at the height of the coronavirus (COVID-19) pandemic. At the time, Irish and British credit unions were maintaining service delivery within the constraints of respective government restrictions. They were faced with the organisational challenge of delivering many more services online, some entirely online, and with a fall in demand for loans given the difficulty members had in spending under lockdown conditions. For the same reason, in many credit unions savings balances also started to increase. Lower or stagnant lending, combined with an ongoing mobilisation of saving, prompted credit unions to become even more concerned about the impact on their economic viability of increasingly attracting savings. It was this concern, in this period of pandemic, that led to this CFCFE study.

The research was based on a survey of Irish and British credit unions, a series of in-depth interviews with credit union CEOs and conversations with some key commentators and regulators. These were complemented by reference to the literature.

39 credit unions responded to the survey, 19 in Ireland and 20 in Britain. 28 were community (or live and work) credit unions (15 in Ireland and 13 in Britain) and the remainder industrial. The survey revealed some of the characteristic differences between Irish and British credit unions. Of the 19 Irish credit unions, 13 had over €100m in assets and none less than €20m. In comparison, of the 20 British credit unions only one credit union had over £100m in assets and 14 less than £20 million. 10 Irish credit unions had over 25,000 members and only three less than 10,000; only five British credit unions had over 25,000 and nine less than 10,000 members.

The full survey findings are presented and discussed throughout the document, with the questions included in Appendix A - The Survey.

The survey was followed up with in-depth, semi-structured interviews with 12 credit union CEOs and senior managers, six in the Republic of Ireland and six in Britain. The full list of these interviewees is given in Appendix B – Interviewees.

In addition, a further series of seven interviews was undertaken with range of stakeholders in the sector. These included regulators, researchers, a CEO of a building society and support organisations. The list of these participants is also given in Appendix B – Interviewees.

3. Concerns about savings growth

The survey of both British and Irish credit unions confirmed that in both jurisdictions savings had continue to grow during the period 30 September 2019 and 30 September 2020.

In Ireland, 53% of survey respondents (n19) indicated that savings had grown between 1% and 10% and 37% of the sample between 11% and 20%. One credit union had seen a growth between 21% and 30%. 13 of the 19 credit unions had assets over €100m, percentages for savings growth in this group were similar to the entire sample. 31% (n13) or four out of these 13 credit unions had savings growth between 11% and 20%. The credit union with growth between 21% and 30% was in this group of larger credit unions.

In Britain, equally from the survey results, the growth in member savings seems to be on a par with credit unions in Ireland or even marginally greater percentagewise for the same period. 20% of respondents (n20) reported growth between 1% and 10%, 60% between 11% and 20% between and 15% between 21% and 30%. Growth was similar between community and industrial credit unions, but a slightly higher percentage of community credit unions recorded a growth of 11% and 20% (43% industrial (n7) and 69% community (n13). One industrial credit union recorded growth between 31% and 50%.

However, even though such percentage savings' growth in a healthy credit union sector would not normally cause comment, in Ireland this rise in savings deposits caused concern and worry. Of all Irish respondents, 37% (n19) worried about the costs that growth entails, 21% worried about being charged negative interest rates, 31% worried about the impact on the capital-to-asset ratio and 5% on the impact on paying dividend or interest on the savings. Put another way, 63% (n19) worried mainly about the costs involved in retaining savings on the balance sheet (dividend / interest payments and bank charges) and 31% worried about the impact on the capital-to-asset ratio.

Of course, the maximisation of savings is only a concern where the return on productive assets, composed of loans and investments, is below the level required to generate sufficient earnings to maintain the capital ratio, pay expenses and pay a dividend / interest on savings to members. This is currently the case in Ireland (cf. Swoboda et al. 2017) where loan-to-asset ratios, despite recent improvements, remain low and where liquid bank deposits can incur costs given negative interest rates (see section 7 below).

As in Ireland, British respondents were also worried about the impact of savings growth on their credit union's balance sheet. 20% (n20) worried about the costs that growth entails, 30% worried about being charged negative interest rates, and 15% worried about the impact on the capital-to-asset ratio.

However, the worry and concern in Britain was less than it was in Ireland. In Ireland, everyone was concerned about savings growth, but in Britain, 30% of respondents were not concerned at all and nobody was concerned about its impact on paying a dividend or interest on savings. In Ireland, 63% (n19) worried mainly about the costs involved in retaining savings on the balance sheet, in Britain this was 50%. In Ireland, 31% worried about the impact on the capital-to asset ratio, in Britain this was just 15% (n20).

All six Irish CEOs expanded on this concern in relation to the growth of savings in the credit union. Four described it as critical, with the other two noting the concern as high-level but not critical currently as they felt that there were still managing the situation.

They were keen to stress that this concern pre-dated the pandemic. Savings growth in relation to loan growth has been rising for a considerable period. Some CEOs explained this as a function of increasing numbers of ageing credit union members who have amassed savings over time, and who generally are less inclined to borrow. But at the root of the problem, as all CEOs stressed, was not the maximisation of savings per se, but the inability to lend those savings effectively. The problem is not savings, but the generally current low loan-to-asset ratio in Irish credit unions.

> *"The problem is our inability to lend that money (savings) back out and our inability to generate any meaningful return on that money now. We just can't generate the margin that we need as a business" (an Irish CEO in interview).*

But this problem and concern was exacerbated through the COVID-19 pandemic given the lower rate of savings withdrawal and a decreased demand for loans.

> *"We have had a huge influx of savings - €4 million a month compared with the €1 million we had pre-Covid. It's a real concern for it is the regular savings that have increased, not the big deposits. People are depositing €100 a week, mostly electronic deposits given 83% of transactions are now online" (an Irish CEO in interview).*

Another Irish CEO noted,

> *"In the first lockdown more savings were coming in. More people had extra sums and they didn't have the same spending capacity. An analysis of what's happening now shows that the normal level of savings is coming in, but they're just not going out at the same rate that they used to. And it's not large lump sums of savings that have come in. It's that they're just not circulating and going out the door again in withdrawals or loans".*

One CEO noted another dimension of increased savings, members paying down their loans, which also had a negative effect on the loan to savings ratio.

> *"We've had quite a number of members who have had the ability to pay off their debts. That's fine in a normal operating environment, but when people aren't borrowing, you're not having the same level of loan issues".*

Drawing out the main concerns expressed in the interviews, Irish CEOs concerns focussed, for the most part, on the following six themes:

- An inability to on-lend the funds generated through savings mobilisation.
- The negative impact on the capital-to-asset ratio.
- The cost of retaining member savings through bank imposition of negative interest rates (the cost of savings through the payment of a dividend featured less given that few credit unions were paying dividends of any significance).
- The increasing inability to identify investment accounts with positive interest rates.
- The cost of life savings insurance on savings.

These are some of the themes that will be revisited throughout the remainder of this study. But even with these challenges, some of the Irish CEOs remained positive about the future and felt that members would withdraw savings and take out loans once again once the pandemic subsided. As one CEO stressed:

> *"We would, I suppose, be a bit positive. We would be of the view that once the economy opens [post COVID-19], and people can start living their lives again. They have put off having celebrations, holidays, and large purchases, and will want to treat themselves. People will be dying to go on holiday, to buy that new car. People will spend again".*

In interviews with the British CEOs, there were similar concerns but, as already revealed in the survey, these concerns although significant were not seen as critical as they were in Ireland. As one CEO of a large credit union said,

> *"It is not critical, but it is more than an average concern. At the moment we can cope, but that is not a long-term solution, so we need to do something now. We are not getting the loans out and that is what is causing the problem. We have high savings and low loans, but we are confident that we can increase lending".*

Another CEO of a British community credit union noted,

> *"It is certainly an issue; we have had a low loan-to-asset ratio traditionally. There is a tremendous savings culture in this region, and it has always been easier to draw savings in. Getting loans out is more of a challenge, people are reluctant to borrow. This has always been an issue but increased with the pandemic. Savings have greatly increased and so we have had to limit the amount people can deposit".*

Two further CEOs noted:

> *"I am reasonably relaxed; we still have growth in lending. It's now 59% savings to assets but was in the mid-sixties last year. Admittedly, growth in lending is not as much as before, but if the business plan had worked [interrupted by the pandemic], we would have needed more savings. Also, capital is healthy at 15.3%".*

> *"It's a concern but not critical. We do have an excess of savings and the loan-to-asset rate dropped to 42%, which is way below the WOCCU goal. But we still pay 1% dividend. We do have a restrictive savings policy and have had it a long time. About 50% of members have less than £500 in savings, many less than £100. Only a small number of people have over £5,000, which is the result of regular deposits over time rather than large deposits".*

One British CEO picked up on a point that had surfaced in Ireland, but not strongly. The impact on credit union savings growth during the pandemic depended very much on the economic situation and demographics of the membership. For many members in employment, the pandemic was a time to save, but for people in less fortunate circumstances, it was a time of financial stress and difficulty in which savings had to be drawn upon. One comment made in the survey, evidently from a credit union serving a more financially vulnerable community illustrated this fact. The CEO wrote:

> *"We are seeing significant numbers of share withdrawals during COVID, and the number and value of members wishing to put more savings in, isn't really making up the difference".*

4. Savings growth in the wider economy

In both Irish and British credit unions, prior to the COVID-19 pandemic, the imbalance between the growth of savings and of loans had been regularly and widely discussed. The 2017 CFCFE report on the Irish credit union business model focused largely on this problem (Jones et al. 2017). In Britain, the Association of British Credit Unions' (ABCUL) 2018 paper on the case for reforming the Credit Unions Act 1979 highlighted the wide divergence between the growth in savings and the growth in loans over the prior 16-year period (ABCUL 2018). As this paper argued, British credit unions, as indeed Irish credit unions, had been successful in attracting deposits but had been less successful in lending those deposits out.

The arrival of the pandemic exacerbated and elevated this trend to a much higher level. In December 2000, the Central Bank of Ireland noted how savings in credit unions had increased by 7% over the period 2019-2020, whilst lending had gone into reverse.[4] It was a similar situation in Britain, where savings increased in the same period 2019-2020 by 13.6% but loans outstanding declined by -2.26%.[5]

The trend of amassing higher amounts of savings during the pandemic was, in fact, replicated throughout the financial services sector. Under lockdown restrictions, and with less opportunity to spend, those whose incomes had been sustained were able to grow their savings balances, or as was often the experience in credit unions, pay down outstanding debts. Lydon and McIndoe-Calder (2021) in their analysis of the rise in savings in the Irish economy, calculated that between 2020 Q1 and 2021 Q1 total household deposits grew by around €18bn, or 15% of disposable income. Making an adjustment of the pre-pandemic deposit trend, they calculated €10bn of what they termed excess pandemic deposits.

In Britain the situation was similar. In the period between March and November 2020, Vlieghe (2021) estimated that excess accumulated pandemic savings were about £125bn, worth around 8% of annual household income. He stressed that further savings would have been accumulated since then, doubling or tripling the amount by the middle of 2021.

However, as Vlieghe stressed, not everyone was able to amass savings during the pandemic. Those households in the bottom 20% of income distribution, he argues, saw a marked decline in savings. People in insecure employment, receiving furlough payments below their usual income or indeed who lost their jobs, suffered particular hardship. The response of credit unions to members in difficulty through the COVID-19 pandemic is recorded in two CFCFE publications (Money 2000a, 2000b) on that very subject.

An important issue, of particular relevance to credit unions, addressed by Lydon and McIndoe-Calder (2021) is the nature of the savings amassed through the pandemic. There is some speculation that these savings are more like deferred spending than precautionary savings,

[4] https://www.centralbank.ie/news/article/press-release-central-bank-provides-update-on-the-financial-condition-of-the-credit-union-sector-17-december-2020.

[5] https://www.bankofengland.co.uk/statistics/credit-union/2020/2020

which would logically lead to significant withdrawals post-pandemic. This would of course assist credit unions in managing their capital-to-asset ratios.

However, this is, as these authors admit, highly uncertain. a slower recovery from the pandemic, rising prices, weaker jobs and income outlook, could encourage households to hold on to savings for longer. Lydon and McIndoe-Calder (2021) also note that, when savings become regarded as personal wealth, there is little propensity to withdraw and spend.

5. Impact of savings growth

If savings balances rise, the assets of the credit union also rise, and if loans do not rise proportionately, the credit union may fail to generate sufficient income to meet the regulatory capital-to-asset ratio. This is particularly the case where the main and often sole source of income is interest on loans. Unlike private companies, credit unions cannot raise capital by issuing equity shares, and are completely dependent on retained earnings to build the capital reserve fund. In Britain, credit unions can receive secondary capital, normally from social investors and for a set period to support the expansion and stability of the credit union. However, this is far from readily available. The receipt of secondary capital is not normally possible in Ireland.

Thus, the first and major impact of an imbalance in the increase of savings and loans in a traditional Irish or British credit union is a strain on the capital-to-asset ratio. Every extra euro saved in an Irish credit union, results in 10 cents having to be found to go into the capital reserve. The figure is somewhat different in a British credit union, depending on asset size, but is still 10 pence in every pound above £50m of assets for credit unions of that size. Costs arise too from other directions. Costs arise from dividend or interest payable on savings and from insurance on savings offered free to members and, where applicable, from any negative interest rate levied on credit union deposits by the banks. The issue of negative interest rates, applicable currently only in Ireland, will be addressed in section 7 below.

Impact on the capital-to-asset and capital-to-loans ratios

In the year to 30 September 2020, 89% (n19) of all participating credit unions in Ireland experienced a decrease in the capital-to-asset ratio due to the receipt of increased savings. Of these 17 credit unions, six (35%) reported that the ratio was uncomfortably close to the regulatory minimum. Credit unions over €100m in assets reported a slightly greater strain on the capital-to-asset ratio than the entire group, with 85% (n13) increasing a decrease in capital but with five (45%) of those 11 credit unions reporting ratios close to the regulatory minimum.

The situation is similar in relation to the impact of savings growth on the capital-to-loans ratio. 79% (n19) of Irish credit union respondents reported a decrease in this ratio, with six (40%) of these 15 credit unions reporting that their capital-to-loans ratio is now set at high risk or a live issue. Among credit unions over €100m in assets, 85% (n13) reported a decrease in the ratio, with four (36%) of these eleven credit unions saying the ratio was now seen as a high risk or live issue.

In the interviews, Irish CEOs expanded on the impact on capital reserves.

"Capital is under pressure as we need to increase capital immediately on the deposit of a euro in savings, which is now impossible to build. Our capital ratio has decreased 0.7% over the last year".

"Yes, savings have gone up and because of that, we introduced a savings cap. Our reserves were being diluted by 0.1% per month at least. So, we brought in a savings cap of €40,000 and are returning our savings over €40,000 to members".

"If we went another two months with the situation that we had [before taking corrective action], our capital ratio would have reduced probably by about 1.5% to 2%. Our reserves are being impacted significantly and we have to maintain the reserves".

Similar strains were reported among British credit unions but to a lesser extent. In the same period in Britain, 50% (n20) of all British credit union respondents also reported a decrease in the capital-to-asset ratio but only one of these ten credit unions (10%) reported that the ratio was close to the regulatory minimum. Among the other ten credit unions in the group, for four the ratio had increased and for six it has stayed the same. Regarding the capital to outstanding loans ratio, no British credit union reported the ratio decreasing and becoming regarded a high risk. Only two (10%) of the 20 respondents said a decreasing ratio was a live issue. In fact, only eight (40%) credit unions of the 20 reported that the ratio had decreased at all.

Several British CEOs in the interviews explained that much of the strain on capital was lifted for many credit unions through the introduction of the Prudential Regulation Authority (PRA)'s new capital regime in March 2020 (PRA 2020). As one CEO said,

"Capital is not really a problem, but the capital-to-asset ratio has still reduced this year. The regulatory changes have changed the position, if that had not changed, we would have been in a worse situation – the government changes[6] released pressure on capital".

Another noted,

"Capital is under pressure. but we have more capital than required by the new rules, 9%".

A further CEO said,

"We have got a lot of free capital but would have been in difficulty if we had not built up additional capital. We were very quick to control savings coming in, we have been stopping members putting in extra savings deposits since 2008, since the banking crisis".

The new capital regime referred to by these CEOs introduced a flexible, tiered approach to capitalization. The new rule is "*A credit union that has total assets of more than £5 million must have: (1) capital of at least 5% of total assets up to and including £10 million; and (2) capital of at least 8% of total assets above £10 million up to and including £50 million; and (3) capital of at least 10% of total assets above £50 million*"[7]. This is tiered for all credit unions so

[6] This refers to the changes in capital requirements implemented by the PRA in March 2020 and discussed on this page

[7] PRA Rulebook – Non CCR Firms – Credit Unions 8.5A (2021)

that no matter how large the asset size, the required capital will grow steadily but will always be less than 10%, given that the capital requirements for the first £50m of assets remains less than 10%.

Prior to March 2020, credit unions reaching £10m in assets had to immediately increase the capital from the 5% required below £10m to 10% of assets overnight. This was a clear barrier to growth with many credit unions, that had not been able to set aside sufficient earned income to double the capital requirement, returning savings to members to avoid passing the £10m mark. This is explained in ABCUL's response[8] to the PRA's proposals for reform of the credit union capital requirements.

> *"In practice, this has meant that many credit unions in the 5% camp have actively sought to manage their balance sheet growth down in order to stay the right side of the threshold while they seek the £1 million required. In some extreme circumstances this has seen credit unions hand back their deposits to members with high balances because this would only add to their capital requirement as long as they – like many credit unions – struggle to lend their deposit funding to the fullest extent".*

Impact on credit union dividends (and interest) on savings

Given that increased savings balances, without generating sufficient income from lending, are a cost to the credit union, one of the costs that credit unions have found they are able to cut is that of dividend payments (or interest) on savings. Some CEOs reported that they had cut dividend rates, even when they could have afforded the cost, to reduce the attractiveness of saving with the credit union. Several Irish CEOs interviewed said that they had been advised directly by the Central Bank, when submitting accounts prior to the AGM to not pay a dividend for the last financial year

In both Ireland and Britain, many credit unions were finding that increased savings balances were making it difficult to pay even a modest dividend. Irish credit union CEOs captured the issue in the following quotations: -

> *"We felt it prudent to ensure that our reserves and provisioning were all strengthened up and we are not paying a dividend on this occasion. We decided to follow the Central Bank guidance to paying zero interest".*

> *"Our dividends are zero. They've been set to zero for probably a couple of years now. The members are getting no return for their money. And I think as we get into negative interest rates, it's going to become more and more critical. We used to have a million in interest and now we lost €250k in negative interest rates".*

One Irish CEO interestingly expressed the view, that the rebate on loans was more important than a dividend and they were focusing on retaining this, despite the current financial challenges.

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[8] ABCUL's response to the consultation - Prudential Regulation Authority – CP 28 / 19 – Credit unions: review of the capital regime. December 2019. Available online

"Before COVID, savings were increasing anyway, but the dividend was not really an issue, nobody was chasing the rate, but we were paying 0.5%. Our focus was more on interest rebates on loans, we are a strong advocate of this, as it is very much appreciated by the members. Last year we let people withdraw the interest rebate of 0.18%".

In Britain, credit union CEOs also reported feeling the feeling the strain of generating sufficient funds from lending to maintain dividends and interest payments on savings. The issue was less of a problem in Britain compared with Ireland, but CEOs were conscious of the need to manage the situation. The following are some of the comments of British CEOs: -

"With the rise in savings, we have to spread the dividend further. We pay 0.5% on normal savings and 1.00% on 90-day savings, which is 1% less than previous years. It is not that we could not afford the extra 1%, but we need to match the market and not inordinately attract savings. We're looking at longevity and sustainability, so we're not trying to continue to attract further savings".

"We pay a dividend, but it has dropped from 1% to 0.25%, so that we do not attract savings into the credit union. That's the backdrop. But it was also to fund the abolition of the annual membership fee. The fees took from everyone but then we rewarded bigger savers with a dividend. 71% of our savers had less than £500. We closed all interest-bearing accounts that paid 1.25%. In fact, no members have moved their money because we closed the account".

"We paid zero dividend this year, first time in 30 years. We paid too much in the past and attracted savings. We need to consider the capital-to-asset ratio and protect the business. Any additional income we have now we use to shore up capital".

"We reduced the dividend in December 2019 from 1% to 0.3 % but people did not bother [to move their savings]. Our total dividend payment has gone down, mostly to save the funds. We also used to have a loyalty account and paid an additional 1% but closed this at end of 2017. We did it because of the uncertainty ahead".

The impact on insurance costs

Traditionally, credit unions have offered a form of life insurance on savings at no cost to the member. This insurance offers a multiple of savings to a member's family on death. Clearly the cost of this insurance increases as the amount of savings increases and sometimes in relation to claims made (which can be high in credit union with an ageing membership). One Irish CEO interviewed said costs on savings insurance had increased 25%.

Most Irish credit unions interviewed seem to retain free savings insurance as a member benefit, albeit the cost rises as savings increase. However, in Britain, it appears more and more credit unions are no longer offering free life savings insurance. Several British credit unions interviewed said this had no impact on members depositing or withdrawing savings. It was just a cost saving exercise.

There are different considerations for loan protection insurance, and these are not discussed in this paper on savings.

6. Savings on the risk register

All six Irish CEO interviewees were clear that the savings' position featured as a significant or even a critical risk on the risk register and had done so prior to the pandemic. Even though all credit unions had currently a comfortable capital ratio, their main concern was the gradual erosion of capital over time. All reported a modest but continuing decline in capital adequacy over the last two years (mostly still less than one per cent).

All said that they monitored the situation closely, but all were in the position of having to take remedial action. Without acting, they considered that they would very soon be out of compliance with the 10% capital adequacy requirement.

These were some of the comments of the Irish CEOs,

> *"It's on the risk register because of the erosion of capital due to the influx of savings. It's true that we are still well capitalized, but it is putting pressure on our capital position. The is exacerbated by decline in loan demand, it's down 50%, nobody has any reason to borrow, no home improvements and a lot of people are holding off borrowing and spending".*

> *"We're in an environment of minimal and negative interest rates and people have nowhere to put their savings. So, savings are coming to the sector at a slow pace on a person-by-person basis, but overall, at a very rapid pace. And therefore, the growth in savings is diluting the reserve position of every credit union".*

> *Savings growth is still on the risk register, we take notice of it all the time, it is a significant issue in that sense. The top query from the Central Bank when we submitted our annual accounts was 'how are you going to address the 11% increase in shares?'".*

> *"Yes, growth in savings is a risk and its impact on capital is a critical risk. The growth in savings is not matched by growth in lending. The loan-to-asset ratio is declining".*

Among the six British CEOs interviewed, four noted the rise in savings as a significant risk on the risk register. Two of these CEOs came from two of the largest credit unions in the country (both with over £100m in assets) and both stressed the high-level risk increased savings posed. They said: -

> *"Yes, it is monitored as a significant risk, and one of our KPIs is a limit on savings growth. This is flagged and discussed at board level".*

> *"Yes, it does, the loan to share ratio has gone from 80% three or four years ago to 55% cent now. So, you can see the impact. The loan to share ratio is on our risk register and discussed almost monthly at board meetings".*

A CEO from one of the smaller credit unions also noted that savings featured as a risk: -

> *"Yes, it does feature as a risk between savings and loans. It is only a problem though if the loan book is not expanding".*

The two CEOs who did not currently have an increase of savings on the risk register said: -

> *"It is not on the risk register, but we are thinking about it – for us lending is the issue".*

The second said that the risk was listed but the other way around. For this credit union, the risk was not having enough to lend. As the CEO explained: -

"It's on the register but the other way – the risk is 'do we have enough to lend?'".

These last three comments highlighted how the problem of too much savings in the credit union is just the flipside of the much greater problem of the credit union not being able to lend efficiently and sufficiently. The maximization of savings only becomes a problem when those savings cannot be lent out to the membership.

WOCCU'S Pearls Monitoring System (Richardson 2001) which is based in an interdependent series of ratios, stresses that an effective financial structure for a credit union depends on maintaining 70-80% of assets out on loan and, at the same time, having 70-80% of liabilities in the form of member deposit savings. The two go hand in hand, when they are out of kilter, the stability of the financial structure is undermined.

7. Return on credit union deposits and investments

In the survey and interviews, credit unions in Ireland and in Britain reported the minimal and declining returns they received on bank deposits and investments. Where credit unions are not able to lend the savings they attract, minimal returns on bank deposits or investments just adds to the credit union's inability to generate sufficient income to retain the capital ratio, to pay attractive dividends to members and to meet the costs of running the organisation. In Ireland, this situation is compounded by the imposition by banks of negative interest rates on liquid deposits, thus adding to the costs of retaining member savings.

89% (n19) of Irish respondents reported receiving less than 1% on total deposits and investments, 21% (n19) less than 0.5%. None of the Irish respondents reported receiving no interest at all, but only two (10%) reported receiving over 1%.

In analysing the interest received on varying deposits and investments over all accounts, a third of all 18[9] respondents to this question indicated that they were receiving greater than 1.5% return on at least 25% of their deposits, with one credit union receiving over 1.5% on 51%-75% of deposits. However, on the other hand, eight (44%) of the 18 respondents reported being charged a negative interest rate on at least 25% of all deposits and another nine credit unions said they were receiving no interest on a significant proportion of deposits (five on up to 25% of deposits, three on 26%-50% of deposits and one on 76%-100% of deposits).

What these figures revealed, was that, even though at the time of the survey, Irish credit unions were still receiving some return on some deposits and investments, albeit at a low level, other deposits were attracting no interest or costing the credit union through the banks' charging negative interest rates.

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[9] NB one Irish credit union skipped this question, thus the reference to 18 rather than 19 credit unions.

In the interviews, Irish CEOs often expressed their exasperation at the situation. One CEO put it this way:

> *"So, we at the moment, there are no places to put our liquid funds, often the rate is even zero. Everything is negative. All of the main banks where we might place liquid funds are all charging negative rates on euros at the moment. The Central Bank is the only exception and that is zero. We do purchase some bonds, but they are all negative on short term accounts".*

Among British credit unions the situation was similar albeit not as severe, with 70% (n20) of respondents reporting receiving less than 1% on deposits and investments and one reported receiving no interest at all. Only two reported receiving interest of over 1%.

However, as in Ireland, receipts on various accounts differed. Four of the 18 (22%) credit unions responding to the question indicated that they were receiving greater than 1.5% return on at least 25% of their deposits, with one credit union receiving over 1.5% on 51%-75% of its deposits. Interestingly this credit union was one of the largest in the British group, with over 25,000 members and with assets in the £20m-£49.9m group. On the other hand, 6 credit unions said they were receiving no interest on a significant proportion of deposits (4 on up to 25% of deposits, one on 51%-75% of deposits and one on 76%-100% of deposits). However, unlike in Ireland, credit unions are not yet charged negative rates on deposits.

Negative interest rates

Among Irish CEOs the issue that caused the greatest comment and indeed anxiety was that of the negative interest rates being levied by banks on liquid deposits. For this additional cost, and it could be very a very significant cost, undermined the viability of the business model of the credit union. Of course, the immediate response is to seek out other non-liquid vehicles in which to invest funds, such as investment accounts, bonds and the like. But, as reported by the CEOs this is becoming increasing difficult. The following are a series of quotations of CEOs speaking of the impact of negative interest rates on their credit unions.

> *"We were able to manage the situation initially. Some of our on-call money was in accounts that hadn't actually started to charge negative interest rates, but we were very much aware that there were other credit unions that had actually been impacted straight away. That was simply because of where they were holding their deposits. As time has moved on, negative interest rates charging has become more widespread throughout all the institutions".*

> *"And we were very much aware of the negative interest rate environment that had started to show itself at the time the loan book had already fallen, and you can see the effects of that cost and reduction of income on your balance sheet, so your investment income becomes more important".*

"And negative interest rates absolutely don't help. If we could, we would charge our members an interest rate. We have no capacity to do it within the Irish legislation. I don't believe we can charge a membership fee either" [10].

"It is a certain proportion of your investment portfolio that is impacted - maybe not government bonds, bank bonds, structured deposits, things of that nature. But as they mature, then it is not easy to find accounts without negative interest rates. Some credit unions might have had earlier maturities and when they were trying to roll those over, they probably found it difficult to avoid negative rates".

"We have negative interest rates on 10% of investment portfolio at this time".

Among the six British CEOs interviewed, there was much less concern about negative interest rates. In fact, during the project on which this study is based, the PRA wrote to all deposit-taking institutions, including large credit unions, warning them to be operationally prepared for the introduction of negative interest rates (Woods 2021). But as yet, there has been no sign of this being implemented.

However, one of the CEOs, from one of the largest credit unions in the group, was concerned and explained the situation thus: -

"So, there are two strands to this, first, the operational implications. We have been asked by the PRA to consider the operations, if we were able to cope with negative or zero interest rates. And because we pay a dividend, we could do this, as we could just not pay it. But secondly, the bigger worry is that cash deposits are an asset at the moment, but what if they become a cost? That could have a significant impact on the credit union".

The five other CEOs stated that they were not particularly worried about negative interest rates. The issue was on the radar but not really taken seriously as impending reality.

8. Actions taken in response to savings growth

In both Ireland and Britain, credit unions reported that they had taken or will take action to reduce the amount of savings flowing into members' accounts. Reducing savings inflow assists in maintaining the regulatory capital ratio, reduces costs on dividend/interest payments and avoids, as levied on deposits by banks in Ireland, negative interest rate charges.

Tables 1 and 2 below record the actions taken, and tables 3 and 4, the actions planned.

In Ireland (Table 1), the three top key actions already taken, in order of the number of credit unions taking them, are:

- imposing a limit on the total savings per member (79% of respondents)
- reducing the dividend on savings to disincentivise deposits (53% of respondents)
- asking members to withdraw their savings (37% of respondents).

[10] The issue of a membership fee in Ireland is discussed further in section 10

Irish Credit Unions: In 2020 or prior, have you imposed any limitations on savings coming into the credit union?								
	All		Community		Industrial		Over €100 in assets	
We have limited regular deposits per member	16%	3	20%	3	0%	0	15%	2
We have limited the size of one-off deposits per member	21%	4	27%	4	0%	0	8%	1
We have imposed a limit on the total savings per member	79%	15	80%	12	75%	3	77%	10
We have asked members to withdraw savings	37%	7	27%	4	75%	3	46%	6
We have reduced or held flat the dividend paid to members on shares in order to reduce the incentive to save with us (not for other reasons)	53%	10	47%	7	75%	3	69%	9
We have reduced interest rates on our interest-bearing accounts	26%	5	20%	3	50%	2	31%	4
We have reduced life insurance payable on savings in order to reduce the incentive to save with us (not for other reasons)	21%	4	27%	4	0%	0	31%	4
We have not imposed any limitations	11%	2	13%	2	0%	0	15%	2
We have implemented other limitations	11%	2	7%	1	25%	1	0%	0
Total in Group		**19**		**15**		**4**		**13**

Table 1 – Irish credit unions – actions taken to reduce inflow of savings

In Britain (Table 2), it is noticeable that a smaller proportion of credit unions had taken any action at all, with over a third saying that they had taken no action. However, where credit unions had made interventions similar to Irish credit unions, the two most popular actions were: -

- reducing the dividend on savings to disincentivise deposits (30% of respondents)
- imposing a limit on the total savings per member (30% of respondents).

However, unlike in Ireland, no credit union had asked its members to withdraw savings.

British Credit Unions: In 2020 or prior, have you imposed any limitations on savings coming into the credit union?								
	All		Industrial		Community		Over £50m assets	
We have limited regular deposits per member	25%	5	57%	4	8%	1	33%	1
We have limited the size of one-off deposits per member	25%	5	43%	3	15%	2	67%	2
We have imposed a limit on the total savings per member	30%	6	43%	3	23%	3	33%	1
We have asked members to withdraw savings	0%	0	0%	0	0%	0	0%	0
We have reduced or held flat the dividend paid to members on shares in order to reduce the incentive to save with us (not for other reasons)	30%	6	14%	1	38%	5	0%	0
We have reduced interest rates on our interest-bearing accounts	20%	4	0%	0	31%	4	33%	1
We have reduced life insurance payable on savings in order to reduce the incentive to save with us (not for other reasons)	5%	1	14%	1	0%	0	0%	0
We have not imposed any limitations	35%	7	29%	2	38%	5	0%	0
We have implemented other limitations	20%	4	29%	2	15%	2	33%	1
Total in group		**20**		**7**		**13**		**3**

Table 2 – British credit unions - actions taken to reduce inflow of savings

In the survey replies, a few credit unions in both jurisdictions indicated that they had implemented actions other than those mentioned in the question. These included variations in terms of the allowed level of monthly deposits, limitations to levels of deposits in joint accounts. In Ireland, a few credit unions noted that they had followed a Central Bank of Ireland recommendation not to pay a dividend on savings in 2020. This was not a published recommendation but made to individual credit unions after submission of their annual accounts before the AGM. In most cases, comments just noted the precise limit, a figure that would have been already captured in the table already.

In Britain, however, one credit union noted that, even though they paid a miniscule dividend, the credit union still attracted savings, given the lack of significantly better rates in banks, or building societies.

In Tables 3 and 4, credit unions indicated the maximum level of savings permitted in the credit union. In Ireland, only 21% (n19) of responding credit unions indicated that there was no limit apart from the maximum amount covered by the Government compensation scheme, whereas the percentage was 40% (n20) in Britain. Interestingly this indicated that in Britain 60% of responding credit unions had implemented some restrictions at some point in time.

One British credit union noted that there had been a £12,500 limit for very many years which was unconnected either to recent economic circumstances or to the pandemic.

Irish credit unions: What is maximum total level of shares/deposits a member can have in your credit union								
Answer Choices	All Ireland		Community		Industrial		Over €100m in assets	
There's no limit other than the regulatory / legal parameters	21%	4	20%	3	25%	1	23%	3
€60,000 / £60,000	5%	1	0%	0	25%	1	0%	0
€50,000 / £50,000	5%	1	0%	0	25%	1	8%	1
€40,000 / £40,000	5%	1	0%	0	25%	1	8%	1
€30,000 / £30,000	32%	6	40%	6	0%	0	31%	4
€20,000 / £20,000	11%	2	13%	2	0%	0	8%	1
Less than €20,000 / £20,000	11%	2	13%	2	0%	0	8%	1
We have implemented other limitations (please specify)	32%	6	33%	5	25%	1	31%	4
Total in group		19		15		4		13

Table 3 Irish credit unions – maximum level of savings permitted

British credit unions: What is maximum total level of shares/deposits a member can have in your credit union?								
	All		Industrial		Community		Over£50m in assets	
There's no limit other than the regulatory / legal parameters	40%	8	43%	3	38%	5	33%	1
€60,000 / £60,000	5%	1	0%	0	8%	1	0%	0
€50,000 / £50,000	0%	0	0%	0	0%	0	0%	0
€40,000 / £40,000	10%	2	0%	0	15%	2	0%	0
€30,000 / £30,000	0%	0	0%	0	0%	0	0%	0
€20,000 / £20,000	10%	2	29%	2	0%	0	0%	0
Less than €20,000 / £20,000	15%	3	14%	1	15%	2	0%	0
We have implemented other limitations (please specify)	30%	6	29%	2	31%	4	67%	2
Total in group		**20**		**7**		**13**		**3**

Table 4 British credit unions – maximum level of savings permitted

In tables 5 and 6, credit unions indicated their future actions to reduce savings. In both jurisdictions, all credit unions were open to the possibility of having to make further interventions. No credit union ruled out imposing restrictions, but 45% (n19) of British respondents said that they had no plans to introduce such limitations, even though this was not ruled out. In comparison, in Ireland only 5% (one credit union) said that they did not plan to introduce restrictions.

As in tables 1 and 2, the responses in tables 5 and 6 indicate a more immediate and greater response in Ireland to savings growth than in Britain. Both in Ireland and in Britain, the most common responses envisaged going forward are reducing the dividend to control the influx of savings and imposing limits on the level of deposits. However, unlike in Ireland, only one British credit union foresees having to ask members to withdraw savings.

Irish Credit Unions: In 2021, do you plan to introduce any limitations on savings coming into the credit union, whether for the first time or in addition to existing arrangements?	All		Community		Industrial		Over €100 in assets	
We will limit regular deposits per member	21%	4	27%	4	0%	0	23%	3
We will limit the size of one-off deposits per member	32%	6	40%	6	0%	0	31%	4
We will impose a limit on the total savings per member	37%	7	33%	5	50%	2	23%	3
We will reduce or hold flat the dividend paid to members on shares in order to reduce the incentive to save with us	47%	9	40%	6	75%	3	62%	8
We will reduce interest rates payable on our interest-bearing accounts	16%	3	13%	2	25%	1	23%	3
We will ask members to withdraw their savings	37%	7	20%	3	100%	4	46%	6
We will reduce life insurance payable on savings in order to reduce the incentive to save with us	11%	2	7%	1	25%	1	15%	2
The limitations we have imposed already will be sufficient	5%	1	7%	1	0%	0	0%	0
We don't plan to introduce any limitations but don't rule it out	5%	1	7%	1	0%	0	8%	1
We will definitely not impose any limitations	0%	0	0%	0	0%	0	0%	0
We will introduce other limitations	16%	3	20%	3	0%	0	15%	2
Total in group		19		15		4		13

Table 5 - Irish credit unions – future actions planned to reduce inflow of savings

British credit unions: In 2021, do you plan to introduce any limitations on savings coming into the credit union, whether for the first time or in addition to existing arrangements?	All		Industrial		Community		Over £50m in assets	
We will limit regular deposits per member	15%	3	14%	1	15%	2	33%	1
We will limit the size of one-off deposits per member	15%	3	14%	1	15%	2	33%	1
We will impose a limit on the total savings per member	15%	3	0%	0	23%	3	33%	1
We will reduce or hold flat the dividend paid to members on shares in order to reduce the incentive to save with us	20%	4	29%	2	15%	2	0%	0
We will reduce interest rates payable on our interest-bearing accounts	5%	1	0%	0	8%	1	0%	0
We will ask members to withdraw their savings	5%	1	0%	0	8%	1	0%	0
We will reduce life insurance payable on savings in order to reduce the incentive to save with us	0%	0	0%	0	0%	0	0%	0
The limitations we have imposed already will be sufficient	5%	1	14%	1	0%	0	0%	0
We don't plan to introduce any limitations but don't rule it out	45%	9	14%	1	62%	8	0%	0
We will definitely not impose any limitations	0%	0	0%	0	0%	0	0%	0
We will introduce other limitations	10%	2	14%	1	8%	1	33%	1
Total in group		20		7		13		3

Table 6 – British credit unions – future actions planned to reduce inflow of savings

In the interviews, all six Irish CEOs said that they had implemented actions to reduce savings including savings caps, reductions of dividend and, in at least three cases, asking members to withdraw savings above the cap that were already lodged. In some cases, the cap was relatively low for a major financial institution such as an Irish credit union, around €20k or €30k. In comparison EBS, a former building society which is now a subsidiary of Allied Irish Bank, is the first Irish financial institution apart from a credit union to introduce a savings cap on its general savings account. However, its cap is set at €500,000 per customer.

Here are some of the comments of the Irish CEOs: -

> *"We're managing the situation. But today letters have gone out to our membership to move the savings cap down to €20k. We've excluded the over 65s but otherwise about 5% of our membership will be affected as we're asking them to remove their shares above the €20k limit. It's a request. We're framing it in that way because members, when they understand the issues, the majority do actually take action. And we did a previous share cap last year to €30k. That was our first and €12 million went out. It was a difficult decision for the board. But they're trying to balance all elements at the moment".*

"A lot of the saving has been due to the pandemic, people cannot spend. Some years ago, we capped the limit at €65k. We did not encourage people putting in the lump sums when people retired. Most of our savers are small savers but shares have started to climb. So, we had to take action – so from 1st March 2021 we have share cap of €25k".

"We have a savings cap of €30k. That's been in place since June 2018. We returned funds back to members. We advised members of the share cap and we worked with them to reduce their balance. We gave them the time to find an alternative solution for their funds. It was a full communication plan put in place for the return of savings".

"We Introduced a €50k cap last year and asked people to remove funds above that. Savings growth is wicked problem which has no one solution. We took two sets of actions. First, we needed to prioritise lending and mortgages. We needed to maximise income opportunities. We also needed to engage the sector in thinking about risk weighted capital and negative interest rates. Then, we needed to consider our risk appetite for accepting savings and we reduced the cap to €30k and considered limiting the amount that can be lodged on a monthly basis. Also thinking about increasing interest rates on loans and further rationalise our costs. We are monitoring the situation continually. There is no easy solution. In fact, we do not have big lodgements. 60% of our members are on payroll deduction and the money comes in on a regular basis".

The last CEO's description of a savings growth is perhaps appropriate, for the problem arises from multiple directions at the same time, with no one action sufficient in itself. At the heart of the problem, as this CEO recognised in the first action outlined above, is the strength or otherwise of the loan portfolio. The loan portfolio is the most important and profitable credit union asset and if it is underperforming, there are multiple negative results throughout the organisation, including savings growth becoming itself problematic.

In Britain, only three of the six CEOs interviewed reported on actions being taken to reduce savings deposits, over and above ensuring the dividend rate was not set at a level to overly attract savings. As one CEO who had initiated actions explained:

"The first control measure that was that you could only put in an extra £500 on top of regular monthly payroll savings and at the moment our maximum is £1k a month. It has been like that for quite a number of years. You also cannot put lump sums in on retirement, people did that a lot at the time of the banking crisis. So, we were getting to a stage where we were banking a million pound a week – so had to stop that. Our limit is £40k and we do ask people to take out any above that and put their payroll deduction down to £5. We have considered other actions such as reducing the monthly limit to £500, but it would be a significant piece of work to do that. This is probably one of the issues with payroll deduction, you've got deposits coming in every month and you cannot control it in the same way as with other ways of receiving deposits. We have 36,000 members depositing different amounts. It would be an operational nightmare to change the monthly limit".

Another credit union CEO, also in an industrial credit union taking in deposits through payroll deduction, had taken a similar stance. S/he explained:

"The overall cap is £12.5k and we limit regular deposits to £350 a month. With COVID we also introduced a lower cap on individual lump sum deposits, reduced from £3k to £1.5k.

But still savings growth last year rose by 13% rather than our standard 10%. Our priority is to get more out on loan. About 50% of our members have less than £500 in savings, many less than £100. Only a small number of people have over £5,000 - the result of regular deposits over a long time rather than large deposits".

However, there were those who were opposed to any restrictions at all, as in the case of this CEO, also of an industrial credit union.

"We have no upper limits on savings (apart from the regulatory limit). We need to put as few restrictions as possible, as this limits market potential. It may be a short-term fix to limit savings deposits, but it could give us long term problems in the future. Limiting saving needs to be the last resort".

A CEO of a community credit union was somewhat of the same opinion:

"No actions have been taken and there are no plans to do that. The focus is building the loan book, as that is the nub of the problem".

Irish and British CEOs in credit unions that had instigated actions to reduce the inflow of savings were asked how successful they thought that these actions had been. In general, they felt that these actions were positive and, for the most part, did not impact on the success or credibility of the credit union, given that they mostly only affected the small proportion of savers with high balances. These are the comments of two Irish CEO's:

"It was very successful for us and meant that we didn't have to actually put any more money into that regulatory reserve at the end of our last financial year".

"The €20k cap only affected about 5% of our members. Average savings balance in the credit union is €4k. The majority of members would have quite a lot of space in their accounts before they get to €20k".

These perspectives were supported by this British CEO: -

"They do work. They do provide control. If they weren't in place, savings balances would be much higher than what they are now".

However, in both jurisdictions, it was not difficult to detect the concerns and uncertainties of CEOs in regard to these restrictions. Yes, the savings caps worked in the short term, and may have to continue for some time, but they could be seen as the long-term solution. The real issues lie elsewhere – with low levels of lending, with limited sources of income apart from lending, with unhelpful capital adequacy regulation, with limitations on investment opportunities and so on. As one Irish CEO argued, the caps and the returning savings to members were like just plugging the hole in the dam.

"In respect of the level of savings. Yes, the cap works, but in almost 100% of cases, as other CEOs have also said, it's like putting your finger in the dam. The water will continue to seep in. It's like a race to the bottom. You just slow it down".

9. Can credit unions continue to promote thrift?

Irish and British credit unions have the self-same objective to promote thrift among their members by the accumulation of their savings. As noted in the Introduction, the maximisation of savings has historically been regarded as a key doctrine of success both in supporting the long-term financial health and well-being of the member and in assuring the economic viability of the institution itself. Credit unions work on the accumulation of member savings and lending those savings back out to the membership.

It is to be expected therefore that credit union activists would face dilemmas when, contrary to everything they have learn and interiorised about credit unions and the promotion of thrift, they are faced with the reality of restricting the ability of members to save and even of returning the savings of members accumulated in the credit union over many years and asked them to deposit these in another financial institution.

Tables 7 and 8 respectively record the responses of Irish and British CEOs to the question; do you believe it right for a credit union to limit the amount that people can save with the credit union? The responses in Ireland were more divided than in Britain, with only 42% (n19) of Irish respondents giving an unequivocal yes, if to ensure sustainability or regulatory compliance, in comparison with 65% (n20) of their British counterparts.

The concerns and doubts of Irish respondents to the survey were expressed in many of the written comments made such as: - *"It goes against all principles and our ethos"*, *"We are left with no option due to over-inflated capital requirements"* and *"But we have no choice".*

In interview one Irish CEO expressed it in these terms: -

> *"It is difficult because it's against the credit union ethos to be preventing members from saving, it is all about being a savings co-operative. You're trying to encourage people to save. Then you're saying but you can only save so much. You have members who have used their credit union borrowing and paying interest all their lives. They come to a point now where they have accumulated savings and the credit union says you can just go away. It's totally alien, it's not a very good image to send those people away or to be putting limits on any account. It's just a negative in people's minds".*

Another had a similar view: -

> *"It should not be that when people have been a lifelong member and they want to put in a lump sum on retirement, it should not be the case that we tell people that we do not want that any more. Something about refusing savings does not fit well with the credit union ethos".*

Some were disappointed that the Central Bank had not been more supportive to ensure that members savings could be safe and remain in credit unions. As one Irish CEO said,

> *"The position of having to hand back money doesn't sit well our purpose. Just looking at the consumer protection codes on the Central Bank website, there must be something to be done to ensure that savings are safe and remain in the credit union. They're only going to go down the road to another institution, and there are not many banks left".*

Another Irish CEO, expressed general exasperation in this comment: -

"I think the Central Bank's attitude is to sit on the fence and take no responsibility. And I've heard the regulator speak. And his attitude is that there is no issue in the sector because the average reserves are 16%. Then at a political level, there are three million credit union members, and they can't politically organise themselves. It's a shame. But I would again blame the representative organisations as well. They just don't know what to ask for and they don't know where to go to get the expertise to help them to know what they could ask for".

As noted in table 1 in section 8 above, only two out of the 19 Irish credit union survey respondents (10%) had not implemented any action to restrict savings growth. One CEO in the survey comments explained why: -

"Our mission is to provide an easy and safe way to save, and to encourage a regular savings habit. So, we haven't imposed any new restrictions on savings".

However, the largest majority had implemented such restrictions, and even though often unhappy with the need to do so, were able to justify their action in terms of protecting the credit union for the current and future membership.

Irish credit unions: Do you believe it is right for a credit union to limit the amount that people can save with the credit union?		
	All	
No, which is why we have not implemented any limits on deposits	5%	1
No, which is why we have not implemented any limits on deposits or disincentives to save	0%	0
No, which is why our limitations are only temporary while the situation is critical	32%	6
Yes, if required to ensure the sustainability of the credit union or meet regulatory requirements	42%	8
Not sure	5%	1
Other views (please specify)	16%	3

Table 7 – Irish credit unions – is it right to limit savings?

British credit unions: Do you believe it is right for a credit union to limit the amount that people can save with the credit union?		
No, which is why we have not implemented any limits on deposits	10%	2
No, which is why we have not implemented any limits on deposits or disincentives to save	5%	1
No, which is why our limitations are only temporary while the situation is critical	5%	1
Yes, if required to ensure the sustainability of the credit union or meet regulatory requirements	65%	13
Not sure	0%	0
Other views (please specify)	15%	3
Total in the group		20

Table 8 – British credit unions – is it right to limit savings?

Protecting the credit union

Irish CEOs in interview explained that they were able to justify savings restrictions on the grounds of protecting the long-term viability and existence of the credit union. Without such action, further damage would be inflicted on the organisation.

In addition, as many of the CEOs explained, the savings cap and the withdrawal of savings affected a small proportion of the membership. Most Irish credit unions serve savers with modest amounts of savings, and these are unaffected. CEOs argued that the credit union continues, despite caps, to encourage and promote savings for most of their members, particularly for younger people. The people affected by the caps are mostly long-term more elderly savers who have amassed savings over a lifetime, and those who had made or want to make large one-off deposits, such as a retirement lump-sum or a bank transfer for an investment purpose.

As one Irish CEO explained

> *"If you're the member who is being asked to take money out, all I can say is that this is in the long-term best interest of all of the members The credit union doesn't exist just for today's cohort of members, it exists also for the future members. So, we do need to take action today and this only affects people with a lot of savings".*

This was a point that was stressed by many of the British CEOs as well. Where actions had to be taken, this was to ensure the safety of the credit union for all. As in Ireland, they said that it was only the relatively small proportion of high savers who were affected. This was explained by two British CEOs: -

> *"If I have to introduce a cap, it will be to protect the organization. Our high savers are low in number, we need to think about the majority".*
>
> *"I think you have to position it that the credit union is for all of its members. Caps do not affect most members; they only affect a very small percentage of our members. About 10% have high balances".*

Both in Ireland and in Britain, promoting saving was not seen in terms of being a home for large-scale investments. Rather the promotion of saving involved supporting members with modest to average incomes to save regularly over time. As one British CEO, from a credit union that did impose caps, clearly stated: -

> *"We are here for small savers, we are not an investment company, that's not the business that we're in".*

This was a point reiterated several times by CEOs in both jurisdictions. Another British CEO stressed: -

> *"We focus on savings for young people and small savers, but we are not a wealth management company. So, putting a cap on savings does not compromise the focus on thrift".*

An Irish CEO was even more forceful: -

> *"Our dividend rate is so low it has an inelastic effect on deposits but the risk for some credit unions that have dividend rates above the market is that they attract 'professional investors' or 'hot' money. These members would have no loyalty to the credit union and can cause dangerous volatility. One of the legal objects is 'to manage members money', if we cannot do that by not getting sufficient out on loan to generate a dividend then we should not accept more deposits and should return deposits".*

A British CEO, however, did strike a note of caution. Sending a message that our that credit unions do not want to retain large amounts of savings, could result in difficulties in the future if and when there is a significant upturn in lending. This CEO said in interview: -

"Think there should be as few restrictions as possible. Limitations on savings sends all the wrong signals. And what about the future if and when we need savings, then things may be problematic. Restrictions are a short-term fix but potentially a long-term headache and should be the last resort. It sends a signal that the credit union is a failing institution, if telling people to take money away. It is all wrong. There is no upper limit at the credit union apart from the maximum covered by the compensation scheme. The focus should be on growing the loan book".

10. Other responses to savings growth

Restrictions on saving in credit unions, as stressed by the CEO at the end of the last section, cannot be the long-term solution to savings growth. Not only is the promotion of saving fundamental to credit union philosophy, but it is savings that fund the expansion of lending. If credit unions want to move into greater mortgage and SME lending, as they do in Ireland, they will need to maximise the savings of members to provide the capital to do so. Savings caps and the like, in a movement that aims to survive and expand, can only be considered as a short-term fix. There needs to be other solutions.

The interviews revealed a range of other actions that that CEOs were considering or, at least debating, to take in order to face into the problems occasioned by high savings balances in a low loan-to-asset ratio environment. Of course, the diversification of loan products to increase lending is the number one challenge. But given that the low lending demand is likely to be a reality for some considerable time, other solutions are required. In the interviews, solutions discussed included increasing non-interest income, more effective investment management, finding new opportunities for lending and investment and more rigorously controlling costs.

Diversification of non-interest income streams

For the most part, credit unions in Ireland and Britain are dependent on loan interest to generate income to pay costs, dividends and to maintain capital ratios. When savings' growth outstrips loan growth and income from lending is insufficient to meet the credit union's financial needs, it is then when large savings balances become problematic.

In other jurisdictions, for example the US and Australia, there is much more of a focus on maximising non-interest income from the levying of fees. In the US for example, fees are generated from multiple sources, including through charging for checking (current) accounts, bounced cheques, overdrafts, insurance commissions, credit card fees and interchange transactions, the use of debit cards and ATMs and annual fees for revolving credit lines. There are other sources of fee income too.

Recently through the pandemic, there has been significant fee income through the Paycheck Protection Program established by the US Federal Government. And there is sometimes fee income associated with fraud protection services, overdraft protection, loyalty programmes on credit cards which enhance interchange and transaction fees and ATM marketing. Over the past 20+ years, various US credit unions have also tried, but with limited success given the regulatory and reputational risks involved, to earn fee income from financial advisory services, access to discount brokerage and other investment products.

Clearly it is not immediately possible to adopt most of these US fee generating activities in credit unions in Ireland or Britain, where most credit unions do not offer current accounts, credit cards and are often limited in terms of the insurance services that they can provide.

However, there was in most interviews in Ireland and Britain an understanding that the credit union business model has to change so that it is not so dependent on loan interest. As one Irish CEO noted:

> *"There is a need for a shift in thinking about what the credit union does and how people interact with the credit union offer. I think we need to shift those services away from being just free and to start introducing charges for transactions, budgeting accounts and insurance services etc.".*

This need for change, highlighted by this Irish CEO has been picked up by the Irish League of Credit Unions (ILCU)[11] in its recent publication, *Credit Unions in a Time of Change* (ILCU 2021) which sets out to "*challenge traditional mind-sets in respect of transaction fees and charges*".

In Britain, there is currently a strong push from the credit union sector to reform the Credit Unions Act 1979. In putting forward the case for reform, the ABCUL has argued strongly, on the basis of the increasing divergence between savings and loans growth, that legislation needs to be adopted to support both loan product diversification and to enable the generation of fee income (ABCUL 2018).

In its 2018 submission, ABCUL understandably focuses on seeking legislative change to enable credit unions to offer a much greater range of loan products – including conditional sale agreements, hire purchase agreements, running-account (revolving) credit[12], credit cards and car finance. As has been noted several times already in this study, and explored in many publications, the savings problem is, for the most part, the flip side of the lending problem, of not being able to lend the savings generated back to the membership. Interestingly though, the ABCUL submission suggests that greater engagement in the British mortgage market is not feasible at the current time. However, with approaches focused on greater collaboration, this may not necessarily be the case in Ireland.

In relation to fee income, the ABCUL submission focuses solely on the generation of income through insurance services, which is regarded as potential growth area in credit unions, but which is highly restricted by legislation at the moment. This is also the Irish perspective. In the interviews with Irish CEOs, it was also stressed that, in the words of one CEO, *"there is a lot more scope for insurance with the right products that provides value to the member. The breadth and the choice of insurance products needs to widen".* Somewhat, inconsistently, one loan product that most credit unions offer in Ireland, the LPLS[13] insurance on savings and loans, is offered free to members. In many cases, this is the same in Britain, but an increasing

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[11] Irish League of Credit Unions

[12] cf. Jones P.A., Money N. and Swoboda R., (2018). The Revolving Credit Opportunity for Credit Unions. CFCFE, Dublin.

[13] Life Savings / Loan Protection Insurance - see https://www.creditunion.ie/what-we-offer/insurance/

number of credit unions are no longer offering one or both of these products to members, as they are a considerable cost to the credit union and not always valued and appreciated by the membership. Currently, no credit union sells these policies as standalone products to their members.

The ABCUL submission does not address fees associated with current accounts, given that only a few credit unions in Britain operate such accounts and there seems little appetite to move in that direction. In addition, the British banking market is dominated by free in-credit banking, so charging certain fees reduces competitiveness. However, in Ireland, the situation is different as increasing number of credit unions are beginning to introduce current accounts. As one Irish CEO interviewed said.

> *"We're hopeful that the current account will change the scenario as you can charge members for providing them with a service. It's a good time because a lot of the banks have started to increase their fees and the current account that we offer here would be one of the cheapest current accounts available. You don't have free banking in Ireland anymore. And where people have their current account, they would also tend to do more of their other financial business when they need to borrow".*

The ILCU (2021) report encourages Irish credit unions to consider implementing charging structures on current and savings account transactions to cover the cost of providing such services. The justification for such a move, ILCU suggests, is that the credit union is a co-operative, and all members need to participate in ensuring its viability and survival.

The ILCU report also maintains that the introduction of negative interest rates on members' deposit accounts is both possible and legal. This, it argues, would offset the charges levied by banks on credit union deposits. However, this is not possible on share accounts, that can only accrue a dividend and not interest, and so ILCU suggests that credit unions reorganise their savings structure and transfer the maximum amount of shares to deposits. ILCU stresses that the imposition of charges on accounts, including membership or maintenance fees, and the levying of a negative interest rate depends always on the credit union obtaining the prior consent of the member. ILCU (2021) is currently developing a practical framework *"on how credit unions can introduce transaction and service charges and restructure savings from share accounts to deposit accounts to facilitate the application of negative interest*".

Some British CEOs noted a number of fee-charging services that they currently offer or have offered in the past, including rent direct accounts and payment services to the local authority such as payments to carers. However, income raised through such services tended to be modest. Some British credit unions do charge an annual membership fee, but this is not universally popular. It is not common in Ireland but is possible with the requisite permission of the member (ILCU 2021).

In both jurisdictions, there were a few interviewees who were sceptical of a focus on non-interest income. As one Irish CEO commented:

> *"I think credit unions should stick to their purpose of providing credit. I have not seen any other way of generating income, apart from investments. Stick to what you know!".*

Managing deposits and investments

Irish CEOs in interview spoke at length about the challenge of maintaining the financial stability of the credit union in a period of minimal returns on investments and of negative interest rates on bank deposits. The reality was that retaining the savings of members, if they could not be lent out, was an increasing cost to the credit union. There was a general acceptance that negative and low interest rates on deposits and investments was the new reality within which credit unions now had to operate. It was a major concern for all. ILCU (2021) described this threat to financial viability in these terms: -

> *"Negative interest rates are now one of the most pressing concerns for credit unions. The impact on our Republic of Ireland cash deposits alone is significant, with negative rates ranging from 0.55% to 1.1%, driving significant and sustained costs, which, if 1-year funds are included would be estimated at €30m and could rise to c.€68m if 5-year funds are included".*

Apart from trying to build the loan book and restrict savings, Irish CEOs said that they had been endeavouring to take action to ensure that as little of the credit union deposits as possible were subject to negative interest rates and that longer-term investments at least paid some minimal return. This meant keeping a close eye on the financial opportunities and regularly moving money from one account to another. Some CEOs used investment brokers; others managed the funds in house. But in both cases, they were finding it increasingly difficult to avoid negative rates on deposits and find any sort of investment account that paid any return at all. As Irish CEOs told us: -

> *"It forces you to manage your funds to reduce the impact of negative rates. You will be charged and it's about reducing the charge. So, we have some accounts that are on demand deposits, and we would transfer funds so that they aren't held at negative rates".*
>
> *"I'd be taking different actions about where to invest money, at a time when it was possible, to avoid those accounts that had the negative rates even if that's only at zero percent. It was a better option. And those choices have reduced as time has gone on".*
>
> *"We've been able to manage, moving money around. But there are not many good investments out there. The return is paltry. The Credit Union Payment Service with Danske Bank was not charging negative rates, but they are now. So going forward, it is going to be a struggle".*

One account that credit unions can use to avoid negative rates to some extent is the Minimum Reserve Deposit Account (MRDA) with the Central Bank. One per cent of short-term liabilities is required by national and EU regulation to be held with the Central Bank. However following changes in regulation in 2020, credit unions can hold seven times this basic amount in the MRDA, with balances over the minimum being regarded as 'relevant liquid assets'. The amount over the minimum attracts zero interest, but that is better than a negative rate elsewhere. According to ILCU (2021), 28 per cent of the capacity in MRDA for credit union deposits is not being used, which is surprising given the urgent need, as expressed by CEOs, to find accounts that do not attract negative rates.

Some CEOs also spoke about seeking out bonds, but mostly said that these were not offering much of a return or even charging negative rates too. Some people thought that credit unions would need to become less risk averse in seeking out corporate bond investment opportunities, but others were more sceptical given the Central Bank's stress on investment risk being a key driver of financial risk within credit unions' balance sheets (CBI 2020). As one CEO explained: -

"We have a low-risk appetite when it comes to investments; our policy is just to invest in capital guarantee products, if we can get a good return that doesn't put funds at risk".

When one Irish CEO was asked if s/he thought credit unions should seek out greater investment opportunities in financial instruments, the answer was guarded, but s/he suggested that a centralised credit union investment function might be one way forward. S/he said:

"Well, I would say the answer is yes and no, I think some CEOs wouldn't have the competency to invest more widely. But there is a definite opportunity for a centralised shared services centre, given that 240 credit unions would never have sufficient expertise in investment management".

In general, however, there was a desire to be able to widen the opportunities for credit union investment in financial instruments, as explained by this CEO: -

"There's room for some special purpose vehicles in which credit unions could invest, with a slight bit more flexibility. They need to be low risk, maybe for example special investment bonds for mortgage securitisation based on a collaborative CUSO approach or perhaps investment in mutual funds".

One CEO suggested - the interviewer was unsure if this was tongue-in-cheek or not - that one way to avoid negative interest rates is to hold a banker's draft in a safe, which would be just the same as putting cash in the safe. However, s/he did add that the insurance premium required to cover it would probably be more expensive than the negative rates at the bank!

One investment possibility that certainly was not tongue-in-cheek and that was discussed as an important opportunity in the interviews was the development of the Credit Union Approved Housing Body Fund[14] approved in September 2021 by the Central Bank for the delivery of social and affordable housing. The Fund, which envisages mobilising up to €800 million in investments, was established by a group of four credit unions but is open to all Irish credit unions to invest in the development of social housing. Not only will this Fund enable the construction of more than 1,000 homes, but it is also envisaged as an alternative investment option in an era of negative interest rates.

One point strongly raised by CEOs was that currently whatever they do to manage deposits and investments can only focus on reducing the costs of negative rates or marginally increasing income from investments. There is no way of removing savings from the balance sheet to reduce the capital-to-asset ratio and thus reduce its costs to the credit union. As one Irish CEO said: -

[14] https://www.limerickpost.ie/2021/09/19/limerick-credit-unions-can-now-invest-in-new-cu-ahb-e800mil-fund-for-social-housing-in-limerick/

"There are no opportunities for off-balance sheet solutions to the high volume of savings. If we are putting savings in with the Central Bank, surely, they're totally risk free. But we still have to find 10% of the deposits for the capital ratio".

Interestingly a possible solution to this fundamental dilemma arose out of the interviews with the British CEOs.

Among British CEOs, there was a similar concern in relation to the poor financial returns on deposits and investments, but much less of a concern about the introduction of negative interest rates. In February 2021, the PRA (Woods, 2021) sent a letter to large credit union recommending that they ensure operational readiness for a zero or negative bank rate. However, CEOs generally felt that such a rate would not in fact be implemented. Much more of a concern was the impact of increased savings on the capital-to-asset ratio. It was this, above all, that was driving some larger credit unions to implement savings caps and other restrictions.

In discussions with the CEOs of two of the largest participating credit unions, the idea surfaced that would allow credit unions to access to an off-balance sheet account that would not feature in the capital-to-asset ratio calculation. They argued that credit unions, at least those of a certain size, should be brought within the Sterling Monetary Framework (SMF) and allowed to access the Bank of England's reserve account facilities, as do building societies in Britain.

This idea was taken up in the Building Societies Association's (BSA) response to HM Treasury's Financial Services Future Regulatory Framework Review (BSA 2021). The BSA argues that that the facility offered to building societies should be offered to at least the largest credit unions. It states: -

"A sensible move would be to allow SMF access to credit unions above a certain size threshold. And at the same time to exclude central bank deposits from the PRA's credit union capital calculation – as is already done for banks and building societies. Credit unions admitted to the SMF would of course hold cash ratio deposits too. This modest, permissive change would cost virtually nothing but provide massive reassurance to larger credit unions, and – more importantly – support their wider societal mission".

When the idea was shared with Irish CEOs, this was a typical reaction: -

"Central Bank reserve accounts that are off balance sheet! That would be fantastic, a brilliant solution. Savings have an impact on the capital ratio. With a reserve account, then savings could be held – that would be a very clever way of dealing with this".

Both Irish and British CEOs also spoke about the possibility of investments over and above those in financial instruments. In both jurisdictions, credit union investments are limited by the regulators (CBI 2021b; PRA 2021), albeit Irish credit unions have greater leeway to invest in the shares of a society registered under the Industrial and Provident Societies Acts. However, both British and Irish CEOs argued for greater freedom in making investments. In Britain, there were calls to be able to invest in co-operatives, mutuals and industrial and provident societies. In Ireland there was particular interest in investing in social housing and other social, community and environmental projects.

11. Supporting members with options

Given the reality of having to introduce savings caps and restrictions, Irish and British CEOs discussed how they could best support those members that have high savings balances if they had to be asked to move their money to other financial institutions.

There was a general acceptance in both jurisdictions that credit unions mostly offer easy access deposit accounts or fixed term deposits, but they do not have investment accounts that are designed for long term savings. In the current climate, it was accepted that it might be in the interests of those members to find other, more suitable vehicles for their long-term savings rather than a credit union deposit product.

CEOs, particularly in Ireland, discussed three possible courses of action that credit unions could take to support members to find long-term savings opportunities through intermediaries. These were referring to or employing professional financial advisors, signposting to information about investment products and services and the possibility of using digital investment platforms. There was a range of mixed opinions around these actions, and lively discussions took place on their pros and cons.

Professional financial advisors

In the USA, some credit unions have referral relationships with professional financial advisors. Credit unions select an individual or firm that they trust, and then introduce their members, based on requests for advice or following a review of the member's savings with the credit union. Based on financial advice, a member may choose to move credit union shares / savings into an independent investment, reducing the balance in the credit union. A financial advisor will, of course, look at the entirety of a member's financial holdings, and it may be that it is not the credit union savings that are subsequently invested. However, the member would still benefit from the advice, and as such, the credit union enhances member service. It is possible that the credit union's arrangement with the financial adviser includes a referral fee, so there could even be a new revenue stream associated with this.

Irish CEOs were more sceptical of this suggestion than their British counterparts. Some were ready to explore the idea, if they could be assured of ethics and values of the advisers; others were concerned not only about reputational risk but also about passing good members over to competing financial institutions. Irish CEO comments included:

> *"There's quite a high-risk profile of that for us as a credit union; to become an introducer to another third party. There is significant brand risk; will they have the same ethos of their credit union? There is also a risk of identifying one particular party from a regulatory compliance perspective. So, we have steered away from it".*

> *"We would say to our members look at state savings, look at AVCs, speak to a financial adviser; we make people aware of environment that they are in. But I do not think we would take on an independent financial adviser. However, if a third party came up with a new national initiative, we may be interested. But there are many pitfalls in independent financial advice. And giving a database of members to an IFA; we would not just do this".*

> *"It's about getting the balance, do not want people to move their business to a third party, but we do need to get savings off the balance sheet".*

A British building society CEO echoed the reputational risks flagged by Irish credit unions, in particular from 'unscrupulous' advisors, and the conduct risk challenges for safe and compliant implementation. Some British credit union CEOs were somewhat more open to the idea, on the grounds that they had a remit to support the financial stability of their members. But others still had reservations.

> *"I think it's worth exploring. So, we would work sometimes alongside other providers. we've set up a facility with one of the smaller building societies where we actually place some funds".*

> *"We identified that there was an appetite from our members for alternative advice. We are engaging just with a couple of organisations that can offer independent financial advice on particular topics that the members have indicated they have an interest in. We have a remit to ensure that savings work for our members, so it is right to offer independent advice for retirement or on any topic that interests them".*

> *"We have never thought about it, but we have written letters to members saying that we are not into investment management. People sometimes think that they are supporting credit union by depositing money, but that is the wrong idea. Maybe there is some merit in exploring offering independent financial advice, but it is not the solution to the savings problem, but maybe it would help to offer some support to members with larger sums, but it is not a priority for us".*

> *"It is not something that we have thought about. We are hoping the savings issue is short term, and in reality, we do not want to shrink the balance sheet. We usually find that high depositors have funds elsewhere and have financial advice from elsewhere too".*

Running through the comments of the British CEOs were thoughts about the longer-term implications of the savings of relatively more affluent members being diverted away from the credit union. If, post-COVID-19, lending is able to overtake savings growth, without savings, there will be a liquidity challenge. If lending volumes delivered sufficient income to cover costs and pay a dividend then a surfeit of savings would be, as one CEO said, "*a nice problem to have*".

Signposting to information

This is the simplest method of introducing members to possible alternatives for their savings. There are many free websites providing detailed fund and stock market information to help members consider investment type and risk. For British credit unions, the Money Saving Expert is a good place to start.[15] Introductory information plus some links could be made available on the credit union website, and suitable members' attention drawn to it via email or other communications.

Irish and British CEOs tended to say that they did not actively signpost. This Irish CEO summed up the position of most:

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[15] https://www.moneysavingexpert.com/savings/investment-beginners/

"I suppose if a member is coming in and talking to us, you could say perhaps you could look at various options, but we wouldn't be signposting people as such. We might suggest the likes of the Post Office's state guaranteed savings".

It is likely, however, that the relatively passive provision of third-party information in this manner would have limited impact on members and therefore will be even less likely to lead to substantive changes to share balances.

Digital investment platforms

In November 2020, Britain's Trustee Savings Bank (TSB) announced a tie-up with a digital wealth management platform (Wealthify, www.wealthify.com) to make investment opportunities directly available to its customers.[16] It was suggested that credit unions could consider similar partnerships with digital platforms.

However, concerns were expressed by British CEOs in relation to regulation, due diligence and reputational risk in setting up such an arrangement.

12. Could governments/regulators do more?

In the survey and interviews, CEOs were asked what actions they thought that governments and/or regulators could or should do to support credit unions in solving the problem of high volumes of savings in the interests of the membership.

If credit unions are prevented from accepting and retaining the savings of their members, not only are they not serving them effectively, the integrity, viability and integrity of the institution itself is called into question. CEOs reminded interviewers that often the high level of the savings in credit unions was not often the result of large investment-style deposits, but rather the result of more moderate-income members saving over many years.

There was a common acceptance among CEOs, particularly in Ireland, that the government and the regulator had a responsibility to protect the sector and its members if it wanted the community and co-operative finance sector to be an effective alternative to the for-profit banking sector.

In this section, the thoughts and suggestions of the CEOs and other stakeholders as they emerged in the study are recorded. These thoughts are not presented as the final word on the situation, but as the immediate understandings of interviewees. Clearly there are differences between the situation in Ireland and in Britain. So even though there will be some overlap, these thoughts of Irish and British participants are presented separately.

Ireland

The suggestions from Irish participants, mainly related to three areas of concern: the regulatory capital requirement, investment opportunities including off balance sheet

[16] 3 November 2020, https://www.tsb.co.uk/news-releases/tsb-partners-with-wealthify-to-offer-new-ways-for-customers-to-save-and-invest/ , last accessed 10/08/2021

deposits, and access to state savings schemes. Other ideas mostly made by individual respondents are also recorded for completeness. There were also suggestions as to how credit unions could be supported to expand lending (for example mortgage lending), but these are not discussed in this paper on savings (for a greater discussion on the expansion of lending, see Jones et al. 2017 and 2018).

Regulatory capital requirement

The greatest number of comments from CEOs concerned regulatory capital and how the current requirements in Ireland are not fairly gauged to the risk profile of a credit union's asset base and directly undermine its ability to retain the savings of their members. They felt strongly that the across-the-board 10% capital requirement is fundamentally unfair, given that it is applied without distinction to an unsecured loan to a member, to deposits in banks and to investments in government bonds.

There were a range of suggestions made by interviewees as to how the regulatory capital requirements could be adjusted to support the viability and sustainability of credit unions. Some of these concerned modifications to the current leverage model, perhaps reducing the capital requirement to 8% or even 5%.

Other suggestions concerned the introduction of some form of risk-based model, in which different categories of assets would be rated differently. The arguments for the revision of the Irish capital requirements are well presented in two recent reports, one from the Irish League of Credit Unions (ILCU 2021) and one from the CEO Forum (Murray et al 2021).

There is no need to repeat the detailed and comprehensive considerations explored in those two reports here. However, it is worth noting that discussions with CEOs in this study tended to favour the kind of 'Asset Linked Ratio' (ALR) approach put forward by Murray et al. (2021) in which capital requirements are linked to the underlying asset class but which avoid the more complex risk-based Basil III approach which, as several interviewees stressed, is more suited to large financial institutions. The proposal by Murray et al. offers a simplified system of calculating capital requirements in relation to classes of assets without having to risk weight each individual asset.

Liquidity requirement

Credit unions in Ireland have to establish and maintain a liquidity ratio of at least 20%. This increases to at least 30% *"where the total gross loan amount outstanding to that credit union with more than 5 years to the final repayment date is equal to or exceeds 29 per cent of the total gross amount outstanding in relation to all loans"* (CBI (2020b) section 8.2c).

One stakeholder interviewee was adamant in his response to that this regulatory liquidity requirement, "doesn't make sense". S/he argued that "*if ever there was a crisis where it was needed, the regulator would make credit unions keep to 20% anyway*".

Several CEOs also mentioned the liquidity requirement as problematic, perhaps not in the same robust way as the previous commentator, but they were concerned that by keeping excess liquid funds in bank accounts, credit unions were accruing even more charges due to negative interest rates applied by banks.

Off balance sheet deposit and investment opportunities

Several CEOs stressed that there was one thing that the regulator and the banks could do which would have a massive impact on the savings problem. This would be to allow funds in designated accounts in banks to be considered as off-balance sheet, given the security and safety of those funds in banking institutions. This should certainly apply, they argued, to funds held in reserve accounts at the Central Bank. These funds should be off-balance sheet in the sense that they can be deducted from the capital calculation.

Access to state savings schemes

One CEO argued that the regulator should "*allow credit unions to offer state savings to members in the same way that An Post does. This would be a withdrawal of savings from the credit union which would reduce the strain on the capital-to-asset ratio*".

Other suggestions

Several other suggestions were made in the survey responses and in the interviews by individual participants. In brief, and without comment, these were:

- Secondary capital - explore other ways of capitalising the credit union including the introduction of secondary capital and deferred shares.
- Prompt corrective action (PCA) – introduce a PCA regime which would mitigate any risks related to for the introduction of a lower capital-to-asset ratio. PCA would involve taking immediate action by the regulator in the case of a falling capital-to-asset ratio.
- Loan provisions - remove the need to hold 10% capital requirement on loan provisions.
- Remove government deposit guarantee on 10% of savings – one CEO argued, *"Remove the government deposit guarantee from 10% of savings and allow this to be treated as capital. This could be combined with the setting up of a new credit union fund to cover some of the losses that would not be covered by the Deposit Guarantee Scheme if they so arose".*

Britain

The suggestions from British participants replicated a number of the Irish ideas. Suggestions mostly concerned the capital-to-asset ratio and the holding of funds in a reserve account at the Bank of England. As in Ireland, there were additional ideas on ways to develop lending and generate non-interest income. However, these are not listed here as they are not specifically about savings.

Regulatory capital requirement

Given the overall smaller size of credit unions in Britain, the issue of the regulatory capital requirement did not arise with the same force and urgency as it did in Ireland. The changes to the regulatory requirements in March 2020 (see section 5 above for details), offered practical support to credit unions, particularly those with less than £50 million in assets, to manage the capital ratio and to retain savings on the balance sheet. As one British CEO said, *"I think the changes already made by the regulator in 2020 to the capital-to-asset ratio are proportionate to manage the health of the credit union but can understand that some credit unions will not be able to maintain this in the current climate".*

However, for larger credit unions required to have at least capital of at least 10% of total assets above £50 million, and even for those below £50 million that are required to have capital of at least 8% of total assets above £10 million up to and including £50 million, strains on maintaining such capital ratios were beginning to emerge or were felt would emerge in the not-too-distant future.

These strains were beginning to be felt in some credit unions directly related to the pandemic. In a letter to the group of credit unions with total assets above £15 million and/or with more than 10,000 members, the PRA noted that, in this group, members' savings had increased by more than 20% between March 2020 and June 2021, and loan income fell by c.4% in the same period (PRA 2021).

Thus, as in Ireland, CEOs in survey returns and interviews argued for even further changes to regulatory capital requirements. Some argued for a general lowering of the capital-to-asset ratio requirement within the current leverage model, whilst others argued for some form of risk-based capital calculation. However, as in Ireland, it was recognized that British credit unions are not in a position to adopt a Basil III capital regime, but it was argued that some weighting for risk would not only be fair but ultimately of significant importance in ensuring the long-term viability of the sector.

Comments from CEOs included: -

"Adjust (lower) the capital-to-asset ratio requirement".

"Temporarily adjust the capital-to-asset requirements to allow for savings' growth because of the pandemic. One suggestion is to discount the additional savings over and above what credit unions would have expected in 2020 from the capital ratio calculation".

"Change the capital-to-asset ratio to refer solely to loans (a capital-to-loans ratio) and exclude bank deposits which are available to lend".

"The capital-to-asset ratio is over-cautious and damaging to the business in the current climate. Previous experience (2008) showed government would not allow banks to fail so these deposits should not be at risk".

"It's [the current challenge] purely about the capital-to-asset ratio. Because for every penny that comes in, I've got to put aside funds away in capital reserve. We need less pressure on the capital-to-asset ratio".

"We must look at risk weighting. Why not discount the value of deposit in banks by 50%? Deposits that reflect lower risk should be treated differently in the capital calculation. There must be a way of managing this easily".

Significantly, in April 2021, the PRA's report, *"A strong and simple prudential framework for non-systemic banks and building societies*" (PRA 2021c), recognised the importance of simplifying the capital requirements for smaller financial institutions that *"are not internationally active and for which prudential regulation could be simplified without reducing* *their resilience*". Interestingly, the report notes that steps to simplify prudential regulation would build on previous PRA actions including the simplified prudential regime for credit unions introduced in 2020.

The report discusses in detail possible ways in which a simplified prudential framework, including capital requirements, could be developed, highlighting however many of the complexities involved. It speaks of two different approaches, a *"fully 'streamlined' approach"* that takes the existing banking prudential framework, built on Basel standards, and modifies elements of this that are overly complex for smaller financial institutions. The other approach is a *"fully 'focused' approach"* based on *"a narrower but more conservatively calibrated set of prudential requirements".* The advantage of the streamlined approach is that it is consistent with the wider banking prudential framework, but the disadvantage is that many requirements would have to be maintained which would compromise the focus on simplicity. As such this would be difficult for the credit union sector to adopt. The advantage of the focused approach is that it *"maximises simplification by reducing the prudential rules to a small set of core requirements*". This clearly would be in the interest of the credit unions. However, the PRA adds a warning stating that in the focused approach the *"calibration of requirements may have to be very conservative".* In other words, the advantages as outlined by Murray et al (2021) in their proposed form of focused approach in relation to Ireland, may not materialise to such an extent in reality. The PRA explains the issue thus:

> *"Under a focused approach, the current Pillar 1 and 2A capital requirements could be replaced with a single, simple, capital requirement. For instance, they could be replaced with a capital to risk-weighted assets requirement where the risk-weighted assets are calculated by allocating assets to a limited number of buckets (e.g., fewer buckets than in the current standardised approach to credit risk). Because the resulting requirement would be less risk sensitive, a significantly more conservative calibration of risk weights or of the minimum requirement would probably be necessary to maintain the resilience of firms in scope of the simpler regime. This would be the case even if some risks could be controlled by choosing tighter scope criteria, as discussed earlier. Therefore, while a capital requirement under the focused approach would be much simpler to calculate, the calibrations would likely have to be significantly higher to ensure the regime is both strong and simple." (PRA 2021c section 4.37)*

Access to Bank of England reserves accounts

As discussed in section 10 above, several of the CEOs of the larger credit unions interviewed called for credit unions to be allowed Sterling Monetary Framework[17] access to the Bank of England's reserve account facilities, as are building societies. Deposits in such a reserve account would be excluded from the regulatory capital calculation. This would be of significant value to credit unions having to manage large amounts of members' savings.

[17] The Sterling Monetary Framework offers liquidity facilities to financial institutions, banks and building societies, to support the objective of financial stability. See: https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/our-tools

Some typical comments of the CEOs were: -

“One thing that could happen easily – is if they Implemented a structure in which funds can be held in a reserve account at the Bank of England and the amount held excluded for capital-to-asset ratio purposes”.

“Reserve accounts would allow us to put money into the Bank of England where we would get the standard rate of interest, but the money deposited would not come under the capital-to-asset ratio calculations. So, if I were able to put away £20 million, for example, into that account, I would have some additional flexibility on the resultant capital ratio because I've reduced the amount of savings that are taken into account”.

“There is a case for it Bank for England reserve accounts, such a challenge finding a home for money now. It would not be an interest rate issue, but simplicity, could be a safe harbour for funds and would be out of the calculation for capital”.

Other suggestions

Other suggestions mainly concerned ideas for expanding lending or sourcing non-interest income. However, there were one or two comments calling for more effective management of the credit union balance sheet by credit unions themselves, rather than looking for solutions from the regulator. One such comment was: -

“I think the issue for the regulator is that you've got some credit unions that are not really managing the balance sheet effectively enough. It's not the regulator's job to individually manage credit unions”.

13. Conclusion

The title of this study refers to the maximisation of savings as being a success, an opportunity and/or a risk. Both in Ireland and in Britain, for the most part, the attraction of savings has been undoubtedly a success. Giving people access to credit is one thing, but persuading people to invest their often life-long savings in an institution is another. For that is built on the trust and confidence that people have in the security and stability of the organisation. That is indeed a success, both for the organisation and the members.

It is well known, for example, that credit unions in Ireland are, year on year, ranked highly within the most trusted companies in Ireland. In 2021, they were ranked the second most reputable company in Ireland, second just to Bord Bia, the Irish Food Board[18]. They were ranked first in 'Positive influence on society' in the Ireland Sustainability RepTrak® 2021 study[19]. It is for this reason that people throughout the country want to save in a credit union.

But this success in attracting savings is also an opportunity. The amassing of funds offers the credit union the opportunity to serve its membership with affordable loans and in so doing, to generate income to pay costs, to pay members a return on their savings and to ensure the long-term sustainability of the organisation. But this only occurs if a number of things happen at the same time. Otherwise, the maximisation of savings itself risks, maybe counterintuitively, the very stability of the organisation it aimed to support.

This paper described that very event – credit unions that had successfully been able to maximise savings, had not been able to match that savings growth with equal expansion of the loan book. This was the result of a range of complex historical and organisational circumstances, including the incidence of the pandemic. But it meant that many credit unions, particularly in Ireland, struggled to generate sufficient income from lending to ensure ease in meeting current capital requirements and in making a return to members through a dividend or interest on savings.

The paper records the actions taken by credit unions in Ireland and Britain to mitigate the risk presented by savings growth. CEOs describe the steps, particularly in Ireland, to manage the situation by the introduction of savings caps and the return of savings to members. However, it was clear that this was not a response that CEOs were comfortable or happy with. It seemed to undermine the very purpose of credit unions as organisations designed primarily to promote thrift and the long-term accumulation of wealth.

CEOs and others described what they felt would be more effective responses to the problem. First, they agreed that credit unions themselves need to find new, modernised, including collaborative, ways of greatly expanding the loan book. Maximising savings only works if it is matched by the equal maximisation of loans. But even then, that alone is insufficient.

[18] See Ireland RepTrak® 2021, https://thereputationsagency.ie/reptrak/top-100-list

[19] See https://www.creditunion.ie/news/latest-news/credit-unions-rank-first-in-positive-influence-on/

Successful credit union sectors, as in the US (Rogers 2012), also optimise non-interest income[20], an area underdeveloped in both Ireland and Britain.

But research participants also pointed to two other major factors that are seriously compromising, especially in Ireland, credit union actions to manage savings growth. These are the current regulatory capital requirements and the lack of access to reserve accounts that can be discounted in the capital calculation. It is here that government and regulators have a significant, and in Ireland an urgent role to play. If credit unions are to continue as viable co-operative financial alternatives within Ireland, they need the Central Bank of Ireland to act now to help mitigate the situation. In Britain, given the smaller size of the sector and the modifications to the capital requirements in March 2020, the capital and reserve account issue is not as pressing for most credit unions. But it is already becoming a significant challenge for the largest credit unions in the country and will increasingly become so as the British movement grows.

On the eve of publication of this study, on 20th October 2021, a Private Members' Bill, Credit Union (Amendment) Bill 2021: First Stage (Stationery Office, 2021), was introduced in the Dáil Éireann by Deputy Marian Harkin and was approved without objection at first reading. The Bill aims to enable Irish credit unions to offer a much wider range of financial services to their members and to require the Central Bank to obtain the consent of the Minister for Finance when prescribing the minimum regulatory reserve requirement for credit unions, in the stated context of the current requirements being too onerous. The Bill was approved but has to be taken in Private Members' time, which probably means it will not progress through Parliament. But it seems to be, at least, a first step in arguing for reform to the current regulatory requirements in Ireland.

[20] cf. https://news.cuna.org/articles/118750-optimizing-non-interest-income

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Appendix A - The Survey

Preamble to the published survey

In 2020 many credit unions experienced greater growth in savings than in lending. Most bank deposits are offering a negligible positive return or even negative, as has happened in some cases in Ireland and has been mooted in the UK. So, unless matched by similar growth in lending, these savings are making little contribution to the trading position and at worst are a direct cost. This survey seeks to understand how many credit unions are experiencing the problem of 'excess' liquidity and what action they may be taking, such as limiting saving with the credit union. That growing lending is the most desirable response is taken as read, and lending is out of scope for this research project.

The Questions

Note – the questions included suggested answers on a multiple or single choice basis. For the sake of brevity these answers are omitted in this appendix.

1. Please select the option below that best reflects your common bond.
2. Please select the option(s) below that best reflects the geography of your common bond.
3. How many members do you have?
4. What are the total assets of your credit union?
5. What is the change in the amount of total member shares / deposits at your credit union between 30 September 2019 and 30 September 2020?
6. How has the capital-to-asset ratio changed in the year to 30 September 2020, if at all
7. How has the capital-to-outstanding loans ratio changed in the year to 30 September 2020, if at all?
8. What is your overall return from the credit union's deposits / investments with other institutions?
9. Please indicate the approximate distribution of your credit union's deposits / investments with other institutions by amount against the interest rates shown
10. Are you concerned about the level of member savings at your credit union, and if so, what is it that concerns you?
11. In 2020 or prior, have you imposed any limitations on savings coming into the credit union?
12. What is maximum total level of shares/deposits a member can have in your credit union?
13. In 2021, do you plan to introduce any limitations on savings coming into the credit union, whether for the first time or in addition to existing arrangements?
14. Do you believe it is right for a credit union to limit the amount that people can save with the credit union?
15. What actions could the regulators in your jurisdiction take in relation to savings that would be helpful for credit unions to manage any current issues with the capital-to-asset-ratio?

Appendix B – Interviewees

Credit Unions

Name	Job title	Organisation
Michael Ahern	CEO	Dubco Credit Union (Ireland)
James Berry	CEO	Bristol Credit Union (England)
Matt Bland	CEO	Co-op Credit Union (England, Scotland and Wales)
Edwina Cunnane	CFO	Member First Credit Union (Ireland)
Ciara Davies	CEO	Metro Moneywise Credit Union (England)
Caroline Domanski	CEO	No1 CopperPot Credit Union (Number One Police Credit Union Limited) (England, Northern Ireland, Scotland and Wales)
Anne King	CEO	First Choice Credit Union (Ireland)
Susan Lynch	CEO	Black Raven Credit Union (Ireland)
Tim Molan	CEO	Affinity Credit Union (Ireland)
Sean Murray	CEO	Comhar Linn INTO Credit Union
David Ross	CEO	Glasgow Credit Union (Scotland)
John Smith	CEO	HEY Credit Union (England)

Other Organisations

Name	Job title	Organisation
Donal Coghlan	Director	CU Services (Ireland)
Paul Dionne	Research Project Manager	Filene Research Institute (USA)
Taylor Nelms	Senior Director of Research	Filene Research Institute (USA)
Paul Walsh	CEO	CMutual (UK & Ireland)
Chris Donald, Marcela Hashim	Senior Manager Manager and Supervision Lead	Credit Unions Team, Prudential Regulation Authority Bank of England
Tim Bowen	CEO	Penrith Building Society
Andrew Gall	Chief Economist	Building Societies Association
Jeremy Palmer	Head of Financial Policy	Building Societies Association

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* Denotes Founding Member. These organisations supported the inauguration of CFCFE in 2017

Credit Union Platinum Members

Comhar Linn INTU Credit Union*, Ireland
Core CU*, Ireland
Dundalk CU*, Ireland
Health Services Staffs CU*, Ireland
Progressive CU*, Ireland

Credit Union Gold Members

Capital CU*, Ireland
Central Liverpool CU*, England
Commsave CU*, England
Dubco CU*, Ireland
Enterprise CU*, England
First Choice CU*, Ireland
Glasgow CU, Scotland
Life CU*, Ireland
NHS CU*, Scotland
No1 CopperPot CU*, England
Savvi CU*, Ireland
TransaveUK CU, England
Tullamore CU*, Ireland

Credit Union Silver Members

Capital CU, Scotland
Pennine Community CU, England
Plane Saver CU*, England
St Canice's CU, Ireland
TUI (Teachers Union of Ireland) Credit Union, Ireland

Credit Union Bronze Members

1st Alliance CU, Scotland
Altura CU*, Ireland
Cambrian CU, Wales
Cardiff & Vale CU, Wales
Celtic CU, Wales
Clockwise CU, England
Clonmel CU, Ireland
Community Credit Union, Ireland
Co-operative CU, England
Donore CU, Ireland
Dragonsavers CU, Wales
First Rate CU, England
Great Western CU, England
Heritage CU, Ireland
Hoot CU, England
Just CU, England
London Mutual CU*, England
Manchester CU, England
Member First CU*, Ireland
Metro Moneywise CU, England
Naomh Breandán CU, Ireland
Palmerstown CU, Ireland
Partners CU, England
Penny Post CU, England
St. Anthony's & Claddagh CU*, Ireland
St. Jarlath's CU*, Ireland
Salford CU, England
Saveeasy CU, Wales
Smart Money Cymru CU, Wales
South Manchester CU, England
Unify CU, England
Youghal CU, Ireland

Corporate Members (reputable suppliers to the sector who wish to support CFCFE's work)

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